



Doing Business in Japan: A Country Commercial Guide for U.S. Companies

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- [Chapter 1: Doing Business in Japan](#)
- [Chapter 2: Political and Economic Environment](#)
- [Chapter 3: Selling U.S. Products and Services](#)
- [Chapter 4: Leading Sectors for U.S. Export and Investment](#)
- [Chapter 5: Trade Regulations and Standards](#)
- [Chapter 6: Investment Climate](#)
- [Chapter 7: Trade and Project Financing](#)
- [Chapter 8: Business Travel](#)
- [Chapter 9: Contacts, Market Research and Trade Events](#)
- [Chapter 10: Guide to Our Services](#)

[Return to table of contents](#)



Doing Business in Japan: A Country Commercial Guide for U.S. Companies

Chapter 1: Doing Business in Japan

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- [Market Overview](#)
- [Market Challenges](#)
- [Market Opportunities](#)
- [Market Entry Strategy](#)

Market Overview

[Return to top](#)

- **Key Economic Indicators**

Gross Domestic Product (GDP) in U.S. dollars:	4.6 trillion
GDP per capita in U.S. dollars:	36,500
Real GDP growth rate:	2.6%
Inflation:	0%
Unemployment:	4.7%

- **Trade Statistics**

In 2004, Japan's already healthy balance-of-trade surplus jumped 28.8 %, from \$69.1 billion to \$89 billion, compared to 2003. Japan's projected balance-of-trade surplus for 2005 is around \$80 billion, according to the Organization for Economic Cooperation and Development (OECD).

- **Principal Trading Partners**

In 2003, the top ten exporters to Japan were China, the U.S., Saudi Arabia, United Arab Emirates, Australia, South Korea, Indonesia, Taiwan, Germany, and Thailand. The top ten importers from Japan were the U.S., China, South Korea, Taiwan, Hong Kong, Thailand, Germany, Singapore, the United Kingdom, and the Netherlands,. The United States was thus Japan's biggest customer and second-largest supplier. In 2004, Japan's trade surplus with the United States was \$89.3 billion. Only in services did Japan have a negative trade surplus with the U.S. (\$10 billion).

- **U.S. Market Share**

In 2004, the U.S. purchased 21.4% of Japan's exports (vs. 24.6% in 2003) and supplied 13.1% of its imports (vs. 15.4% in 2003).

Complete U.S. government foreign trade statistics (exports and imports by country and product) are available online from the U.S. Department of Commerce, U.S. Census Bureau at www.census.gov/foreign-trade/statistics/country/index.html.

Japanese foreign trade statistics (imports and exports) are available online from the Japan External Trade Organization (JETRO) at www.jetro.go.jp/en/stats/statistics/.

- **Political Situation / Issues Affecting Trade**

The U.S.-Japan alliance is the cornerstone of U.S. security interests in Asia and is fundamental to regional stability and prosperity. Despite the changes in the post-Cold War strategic landscape, the U.S.-Japan alliance continues to be based on shared vital interests and values. These include stability in the Asia-Pacific region, the preservation and promotion of political and economic freedoms, support for human rights and democratic institutions, and securing of prosperity for the people of both countries and the international community as a whole. Japan is one of the world's most prosperous and stable democracies and is also a staunch ally of the U.S. and a strong supporter of U.S. Administration policies.

Market Challenges

[Return to top](#)

- **Barriers to Market Entry**

While tariffs are generally low, there are still some barriers that impede or delay the importation of foreign products into Japan. For more details, please refer to Chapter 5, [Trade Regulations and Standards](#), of this Guide.

- **Local Requirements**

For more details on local requirements with regard to import license requirements, restricted or prohibited imports, temporary entry of goods, certifications, and labeling requirements, please refer to Chapter 5, [Trade Regulations and Standards](#), of this Guide.

Market Opportunities

[Return to top](#)

- **Best Prospect Sectors**

The best prospects for U.S. exporters in the Japanese market are in the following sectors: medical equipment, biotechnology, electronic components, computer software, pharmaceuticals, travel and tourism, aircraft and aircraft parts, new energy power generation, dietary supplements/health food, lifestyle market, soil remediation and engineering services, education and training services, telecommunications equipment, building products, and safety and security products.

- **Major Projects**

The major public-works projects currently under way in Japan that present significant opportunities for U.S. companies are urban renewal projects in various cities, the Okinawa Graduate University, and Tokyo Haneda Airport expansion.

- **Business Opportunities**

There are excellent opportunities at the moment for U.S. companies in financial services, service industries in general, telecommunications, and power generation. For more details, please refer to Chapter 4, [Leading Sectors for U.S. Export and Investment](#), of this Guide.

- **Asia Now: Exporting to East Asia & China Just Got Easier!**

The [Asia Now](#) program brings together the resources of U.S. Commercial Service offices in 14 Asia-Pacific markets and our [Export Assistance Centers](#) throughout the U.S., providing your company with a single point of access to exporting to Asia-Pacific. To find out more about [Asia Now](#), please visit our dedicated web site, www.buyusa.gov/asianow/.

- **The U.S. Commercial Service's "Northeast Asia Initiative"**

As a market for American products, Japan shares several characteristics with South Korea and Taiwan, including similar levels of disposable income and consumption patterns, similar regulatory structures and approaches, and a common fascination with the "American lifestyle." In recognition of these synergies, the U.S. Commercial Service in Tokyo, Seoul, and Taipei have launched a coordinated program of assistance to U.S. exporters called the [Northeast Asia Initiative](#). For more information, please visit www.buyusa.gov/asianow/neasiainitiative.html or contact the Commercial Section of the American Embassy in Japan.

Market Entry Strategy

[Return to top](#)

It is essential for U.S. companies that are serious about entering the Japanese market to hire a reputable, well-connected agent or distributor, and to cultivate business contacts through frequent personal visits. Japanese attach a high degree of importance to personal relationships, and these take time to establish and nurture. Patience and repeated follow-up are required to clinch a deal. Unless you possess excellent Japanese language skills, it is essential for foreign business executives to be accompanied by a professional interpreter, as many Japanese executives and decision-makers do not speak English. For more details, please refer to Chapter 8, [Business Travel](#), of this Guide.

[Return to table of contents](#)

U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at (800) USA-TRADE, or go to the following website: <http://www.export.gov>.

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.

[Return to table of contents](#)



Doing Business in Japan: A Country Commercial Guide for U.S. Companies

Chapter 2: Political and Economic Environment

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- [Summary](#)
- [Executive Summary](#)
- [Major Trends and Outlook](#)
- [Balance-of-Payments Situation](#)
- [Principal Growth Sectors](#)
- [Agricultural Products Market](#)
- [Japan's Leading Economic Regions](#)
- [Government Role in the Economy](#)
- [Infrastructure](#)
- [Web Resources](#)

Summary

[Return to top](#)

Please refer to the State Department's *Background Notes* for Japan at www.state.gov/r/pa/ei/bgn and click on "Japan."

Executive Summary

[Return to top](#)

Japan is a vibrant, prosperous country, with the world's second largest economy. Japanese consumers spend hundreds of billions of dollars on food, clothing, travel, entertainment and a wide variety of other consumer goods and services. The top Japanese firms are among the most efficient and best-run firms in the world. Unemployment, while high by historic Japanese standards, is around 4.5% — lower than in most developed countries. The average Japanese household has over \$100,000 in savings, and disposable income of \$4,100 per month. Japan is one of the largest overseas markets for U.S. exporters, with imports from the U.S. totaling just over \$54 billion in 2004.

For Japan, the decade 1995-2005 was one of slow or no growth; a banking system struggling to deal with a crushing bad loan problem; a seemingly unending deflationary cycle; soaring government debt; unprofitable and often uncompetitive domestic firms; and a political system seemingly incapable of taking the decisive action necessary to fix these problems.

By all accounts, however, 2005 was the year in which Japan finally succeeded in pulling itself out of the economic rut it had been mired in for the past decade. Japan's economy grew at an annualized rate of 1.7 percent in the second quarter of 2005 and 3 percent in the third quarter. Concurrently, capital investment by enterprises jumped 9.6% in the third quarter, and household consumption expenditures rose 2 percent during the same period, confirming Japan's slow but steady emergence from the economic doldrums.

In an economic outlook report published in November 2005, the Paris-based Organization for Economic Cooperation and Development (OECD) was cautiously optimistic, stating that Japan's leading economic indicators showed that the prolonged adjustment process the country entered into after the "bubble" burst is finally over, and that industrial output should increase by some 2 percent in 2006-2007.

Japan's six leading banking groups, which until recently were staggering under mountains of bad debts, are now all posting record profits. The Nikkei stock market index keeps on climbing. The persistent deflation of the past decade is now receding into memory, as the Bank of Japan cautiously moves away from its recent policy of flooding the capital markets with liquidity at interest rates of zero or close to zero.

The painful restructuring of the last ten years is finally bearing fruit. Japan's reinvigorated industrial machine is renewing with profitability and competitiveness, thanks largely to the efforts of the private sector. The private sector's efforts are matched on the government side of the equation as the administration of Prime Minister Junichiro Koizumi, bolstered by the LDP's triumph in the parliamentary elections of October 2005, continues to push for structural reform of the economy. Koizumi's pet postal privatization bill successfully having made it through the National Diet, the coming years should witness a complete overhaul of Japan's financial services sector as Japan Post's huge insurance and savings account operations are privatized and open to competition.

The fact remains, however, that for most U.S. firms the prospects for structural reform in the Japanese economy are less important than the fact that Japan remains one of the largest overseas markets for U.S. goods and services. And in many ways, opportunities for competitive U.S. companies in the world's second largest economy are better than they have ever been. Japan's consumers buy American products ranging from music to furniture. Japanese consumers eat almost 60 percent of the cherries the U.S. sends overseas, and the over four million Japanese who visit the United States each year buy more than \$12 billion worth of plane tickets, hotel rooms, restaurant meals, souvenirs and other goods and services. Japanese firms are major purchasers of U.S. computers, machinery, medical devices, pharmaceuticals, chemicals and services. As the Japanese economy has weakened, Japanese consumers have become more willing to buy imported products and work for foreign firms; and Japanese firms have become more willing to accept foreign investment and cooperate with foreign partners. Market barriers have fallen across the board, and Japan has never been more open to foreign goods and services than it is today.

The contrast between Japan's somewhat rigid but improving macroeconomic situation and the significant opportunities that exist in the Japanese market for competitive U.S. firms is a theme that runs through this Country Commercial Guide. Contradictions abound. Although a number of household-name Japanese firms are world-class competitors, many other Japanese firms are inefficient and uncompetitive in world markets. Japanese firms tend to have very poor margins, and few Japanese firms make an adequate return on their invested capital. Competition from fast-rising competitors — particularly China and Korea — is increasing. Government debt has been climbing steadily over the last decade, and now exceeds 145 percent of GDP. Local government debt, corporate debt and consumer debt are all high as well. But Japan also has fundamental strengths that are easily overlooked amidst the torrent of bad news. Japan has an enormous base of capital — physical, human and financial — that has been created over the past 50 years. Japanese society and its political system are stable. Japan has an industrious, educated population and a cadre of world-class manufacturers. Japan has a history of economic success in the face of daunting obstacles. And finally, Japan is rich.

U.S. firms will find excellent markets for their goods and services across a broad range of sectors. Financial services will continue to be a growth area as Japan works through its banking problems and attempts to make its capital markets more efficient. Firms in the energy business will find new opportunities as Japan deregulates its power generation market and studies the privatization of the national oil exploration company. Japan's population is aging, and there are growing opportunities in the "silver services" sector, services for the increasingly healthy, affluent seniors. Japan's government has an ambitious program to increase the use of information technologies throughout Japanese society, which will open up new opportunities for U.S. suppliers of IT equipment and services. Japan's consumers are rich, sophisticated and highly diverse in their interests and tastes, and U.S. firms that can find a way to cater to those tastes and interests will find that the world's second largest consumer market can be very profitable. More information on these and other markets of opportunity can be found in the [Leading Sectors for U.S. Exports and Investment](#) section of this report.

Optimism about the opportunities in this four trillion dollar economy must be tempered with realism. While Japan is more open to foreign goods and services today than it has ever been, the Japanese economy remains over-regulated, and those regulations can be used to hinder foreign firms' attempts to gain access to the market. Even when government red tape is not meant to hinder foreign firms, in areas such as transportation equipment or healthcare it often has that effect. Moreover, despite the government's active role in the economy, collusive practices among local firms are still widely tolerated — especially in more traditional industries such as construction, and the manufacture of basic materials such as steel, chemicals, paper and glass. Finally, straightforward business competition in Japan can be ruthlessly fierce. When faced with a new foreign competitor, Japanese firms will often use any tactic available — from severe price cutting to pressuring clients and customers — to keep the foreign competitor from succeeding.

The above-mentioned difficulties notwithstanding, the bottom line is that the size of the market opportunities in Japan dwarfs any other overseas market, and competitive U.S. companies should be here.

Major Trends and Outlook

[Return to top](#)

Japan is the United States' largest non-NAFTA trading partner. It is also the world's second largest economy, with a GDP of roughly \$4.6 trillion in 2004. Measured in dollar terms and at current exchange rates, that is roughly 39 percent of the United States' GDP, although fluctuations in the dollar/yen rate can change this figure significantly. Measured on the same basis, Japan's annual output is almost equivalent to that of Germany and France combined. It is roughly three times the annual output of China, and eight times that of India. U.S. exports to Japan were roughly equal to U.S. exports to the United Kingdom and France combined, and nearly double U.S. exports to China, in 2003.

Viewed as the first of Asia's economic miracles through most of the postwar era, Japan's economic growth was sluggish or negative over the last decade and is just beginning to show signs of a sustainable recovery. Following the end of the "bubble economy" that centered on Tokyo property markets in the late 1980s, the Japanese economy experienced over a decade of uneven and ongoing stop-and-go reform. The government took aggressive steps to strengthen ailing banks in 1998 and has made further efforts at financial restructuring under Prime Minister Koizumi. The Koizumi Administration has also sought to begin the process of fiscal consolidation given Japan's large stock of gross government debt, estimated by the OECD at 161.1% of GDP in 2005. The strength of the current economic recovery remains dependent upon continued strength in private consumption and exports.

The pressing need for Japanese firms to restructure and lower costs has been felt in terms of layoffs or reductions in salaries, wages, and bonuses. At the same time, however, the push to find more cost-effective ways of doing business has led to a reexamination of traditional *keiretsu* and other buyer-supplier relationships. Manufacturers are now looking for ways to bring in high-quality, low-cost components and materials from foreign suppliers. Thus, overseas suppliers are seeing new opportunities in some areas of the Japanese market, although they are challenged to supply products at competitive prices.

The ongoing process of financial and corporate restructuring also means that opportunities for foreign direct and portfolio investment are on the rise. With banks focused on consolidation and balance sheet improvement, Japanese firms are increasingly looking overseas for investment capital. Further, consolidation and reorganization throughout the Japanese corporate sector has led to a wave of asset sales — properties, plant and equipment, and subsidiary companies — as firms seek to spin-off poorly performing or non-core elements of their operations. Some of the most noteworthy foreign investment deals in recent years have occurred in the financial sector, where the failure of some institutions and the need to return nationalized assets to private hands led to a relaxation of long-standing barriers and negative attitudes toward foreign investment. Business tie-ups, joint ventures, and distribution affiliations between foreign and Japanese financial services providers have also accelerated as new opportunities arise as a result of financial deregulation. Improvements in land and labor mobility have also raised new possibilities for "green field" investment, although

entry costs for some industries still remain high. Foreign direct investment into Japan rose to \$7.8 billion in 2004, up 15 percent from a year earlier. Japanese direct investment abroad rose 0.3 percent year-on-year to \$31.0 billion.

A key demographic trend with profound implications for Japan in years to come is the aging of its population. Because individual health care expenditures rise rapidly after the age of 60, the graying of Japan's population will lead to a substantial rise in spending on health care over the next three decades. By 2025, the Ministry of Health and Welfare predicts that more than one in four Japanese will be 65 or older (up from about one in seven now). As a result of this demographic shift, fewer workers will have to support more retirees, and productivity per worker will need to climb to maintain national output. This will have implications for the pattern of demand, with greater opportunities in health care and retirement industries.

Appendix A			
DOMESTIC ECONOMY			
	2002 (actual)	2003 (actual)	2004 (actual)
Gross Domestic Product (nominal; billions of U.S. dollars)	3,907.3	4,231.4	4,585.4
GDP growth rate (real; percent)	0.1	1.8	2.3
GDP <i>per capita</i> (USD)	30,660.0	33,156.0	35,911.0
General government spending as a percentage of GDP (nominal)	37.0	36.4	35.5
Inflation (CPI; percent)	-0.9	-0.3	0.0
Unemployment rate (percent)	5.4	5.3	4.7
Average \$ / ¥ exchange rate (used in this table)	125.31	115.93	108.18

Appendix B			
TRADE			
<i>(Billions of U.S. Dollars)</i>	2002 (actual)	2003 (actual)	2004 (actual)
Total country exports	394.86	447.98	538.87
Total country imports	301.22	342.23	406.71
U.S. exports	57.75	58.87	62.52
U.S. imports	118.69	115.69	126.92

Average \$ / ¥ exchange rate (used in this table)	125.31	115.93	108.18
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Balance-of-Payments Situation

[Return to top](#)

Japan's trade and current account surpluses are the largest in the world. Japan's trade surplus continued to rise in 2004, to 132.2 billion, according to U.S. Embassy calculations based on official yen-based data. The current account surplus also increased 18.1 percent in 2004 over the previous year, to 172 billion.

Principal Growth Sectors

[Return to top](#)

Following the U.S.-Japan Framework Agreement of 1993, new opportunities developed for U.S. companies to sell to Japanese Government entities, especially in the fields of computer hardware and software, telecommunications, medical equipment, pharmaceuticals and construction services. In recent years, the Japanese Government has taken several measures to increase access for foreign suppliers to the government procurement market. They voluntarily expanded the number of agencies and lowered the threshold procurement amount covered under WTO rules. In addition, they revised the following procurement activities so that they now: (1) hold annual seminars to provide anticipated procurement information; (2) provide more transparency through public announcements; (3) provide advance notice of single tendering procedures; (4) provide separate announcements for procurement under the WTO; (5) provide an on-line system for Internet access to all GOJ procurement announcements; (6) use the overall-greatest-value evaluation method for telecommunications and medical technology products over 800,000 SDR's; and (7) use complaint review procedures. A wide range of construction projects is now open to competitive bidding. Construction tenders are regularly announced in the industry newspapers *Kensetsu Kogyo Shimbun* and *Kensetsu Tsushin Shimbun*. Under the WTO Agreement, to which Japan is a signatory, 47 prefectures and 12 government-designated cities have begun to improve opportunities for motivated U.S. companies to sell to Japanese local governments.

Japan is the world's second largest market for information technology equipment and services (telecommunications, computers, peripherals, software, and multimedia). Fueling the current strong demand for telecommunications infrastructure is the Japanese government's goal to connect all Japanese businesses, government offices, schools, and homes by 2010, combined with the e-Japan program initiated by former Prime Minister Mori which aimed to make Japan a leader in information technologies by 2005. Current investment in telecommunications infrastructure is more than \$40 billion (5 trillion yen) annually. Japan's recent exponential growth in the market demand for networking, for IP/broadband-based communications, Internet applications, wireless communications (3G, wireless LAN, etc), and satellite communications is expected to continue for the next decade.

Surveys have shown that Japanese houses are two to three times more expensive than equivalent American houses, and many Japanese people are not satisfied with either the quality or price of their current housing stock. In contrast, imported American-style homes are regarded as offering high quality, low cost, and earthquake resistance. Hundreds of U.S. companies in building materials, manufactured housing and home

building industries are already working with Japanese companies to build American-style 2x4 platform frame construction homes in Japan.

Over the next several years, a multitude of new opportunities should be seen in regional markets outside Tokyo as price-pressured key buyers show increased receptivity to foreign-supplied goods in leisure, as the Japanese worker finds more time and money to spend off the job; in retirement communities and health care with the "graying" of Japanese society, as well as in meeting the needs of the handicapped; and in changing and broadening consumer tastes, as the Japanese consumer has become more cosmopolitan with greater exposure to foreign products. Pressure to reduce Japan's large fiscal deficit will inevitably have some impact on infrastructure spending, particularly in such traditional priorities as roads and airports. However, new areas such as information technology infrastructure and a continued shortage of housing will still provide opportunities for foreign suppliers. In the final analysis, even an economically sluggish Japan remains a prime market that should not be ignored or neglected. Major regional opportunities are described below.

Agricultural Products Market

[Return to top](#)

The value of Japan's **agricultural production** has been falling since the mid-1980s, with key sectors seeing decreasing production in most years. Cereals, rice, dairy, beef and pork, and fruits and vegetables are all experiencing this decline to greater or lesser degrees. Rice remains Japan's major crop, but falling consumption has led to chronic surpluses. Japanese policy makers are concerned because Japan currently imports 60 percent of its food (on a calorie basis). The major reasons for this low rate of self-sufficiency are a shortage of arable land, increasing consumption of meat — which is either imported or produced locally with imported feed — and salad oil production from imported soybeans. In addition, Japan's farm population is rapidly aging, with over 70 percent of farmers over 60 years of age. Add to that the average farm size is only about four acres and increasingly strict environmental regulations limit any economies of scale for Japanese agriculture.

To stem the decline in Japan's agricultural sector, the Government of Japan (GOJ) continues to provide high levels of domestic support and the government and farm cooperatives still have a powerful influence over farmers' decisions regarding production. When Japan's Agriculture Basic Law was revised in 1999, the GOJ set the goal of achieving a food self-sufficiency rate of 45 percent by 2010. To achieve this, MAFF encouraged farmers to grow wheat and soybeans in place of rice, and introducing more market-oriented pricing policies for dairy products, vegetables, and livestock products. However, MAFF has recognized that its goals for 2010 are unrealistic, given the decline in the Japanese agricultural sector over the past 10 years and has extended the deadline until 2015. After months of negotiations, Japan finally passed a rice reform program that will end its costly production adjustment program by 2009. The program will shift responsibility for production planning from MAFF to farm co-ops, increase subsidies to large farmers, and open domestic rice distribution to more players. In 2005, MAFF announced the outline of a new farm subsidy program that departs from the current commodity-specific support given to practically all farmers and launches direct payments targeting larger scale farmers. The new scheme is scheduled to commence in JFY 2007.

Though domestic protection is still strong, market access has improved over the years via persistent negotiations in the WTO by the United States and others that forced Japan to eliminate many of the agricultural market access barriers for which it was once famous. Where earlier quotas and outright bans restricted the market for U.S. beef, citrus, fruit juice, cherries, apples and ice cream, all of these markets have now been opened. However, access issues still hamper farm trade due to high tariffs on processed food products, restrictive plant quarantine measures on fruits and vegetables, trade-limiting quotas, complicated labeling practices, strict inspection requirements on imported goods and time-consuming approval processes for products of biotechnology.

The combination of improved market access and declining domestic production resulted in excellent export growth for American agriculture through most of the 1990s, making Japan our top overseas export market. In recent years, due in part to the ban on U.S. beef, Japan has slipped to the number three export market after Canada and Mexico. About 14 percent of all U.S. agricultural, forestry and fishery products exports, valued at \$10 billion, are destined for Japan. While exports have suffered a setback since 1997 due to Japan's on-going recession, tough third-country competition and food safety concerns, long-term prospects are excellent for the following reasons: (1) growing consumer demand for value plays to U.S. strengths (U.S. foods typically cost less than local products); (2) Japanese agriculture continues to decline, leading to increased dependence on imports for stable food supplies; and (3) continued westernization of the Japanese diet away from fish and rice toward meats, dairy products and other American staples. Export stars include wheat, soybeans, corn, pork, frozen corn and mixed vegetables, citrus, wine, cherries, and processed snack foods. For additional information about U.S. agricultural, food, forestry and fishery product exports to Japan and other countries, please see the Foreign Agricultural Service Homepage at www.fas.usda.gov/scripts/attacherep/default.asp.

Japan's Leading Economic Regions

[Return to top](#)

Japan's capital city, **Tokyo**, is the country's undisputed center of government, business, higher education, information, media, fashion, and culture. Most major Japanese companies, trade associations, and foreign companies have their headquarters or major branches in Tokyo. Despite the high cost of residential and commercial office space, most U.S. companies establish a presence in Tokyo because of the need to interface with their Japanese customers, obtain market information and, in many cases, to maintain relations with Japanese government ministries. Consumers in Tokyo are more likely to come into contact with foreign products, food and styles than elsewhere in Japan, and consumer trends and fashion often originate in Tokyo.

Although the population of Metropolitan Tokyo (Tōkyō-to) is just over 12 million, the continuously built up urban area around the capital encompasses the neighboring prefectures of Kanagawa, Saitama, and Chiba and has a population of over 31 million, equivalent to the New York and Los Angeles metropolitan areas combined. The greater Tokyo area — often referred to as the “Kantō” — boasts the two largest cities in Japan, Tokyo of course and the bustling industrial and port city of Yokohama (pop. 3.6 million).

As the economic powerhouse of Japan, this area in has a GRP of US\$1.7 trillion, which accounts for 34% of Japan's total GDP and is equivalent to the combined GDP of South Korea, Australia, and Taiwan.

For U.S. companies, the major advantages of establishing a presence in Tokyo are the huge concentration of major Japanese and foreign companies; the largest number of consumers in Japan; the close collaboration between government, industry, and academia; an unparalleled location at the hub of Japan's road and rail network, with 9 major ports and Japan's two busiest airports (Narita and Haneda) in the metropolitan area. In addition, major urban renewal schemes completed or underway in metropolitan Tokyo are contributing to lower land and business costs.

Attractive areas for U.S. exporters in the greater Tokyo area are environmental technologies, biotechnology, information and telecommunications technologies, medical equipment and welfare services, and the lifestyle market.

In addition to local and regional activities in support of foreign enterprises, Japan's Ministry of Economy, Trade and Industry (METI) has selected 4 areas in Japan to receive additional national assistance for incentives and promotion of foreign direct investment in particular industries. These areas include Yokohama City in Kanagawa Prefecture (for IT and electronic components) and Chiba Prefecture (for biotechnology).

Kansai is the historical name given to the nine-prefecture region of western-central Japan, consisting of Osaka, Hyogo, Kyoto, Shiga, Nara, Wakayama, Mie, Fukui, and Tokushima (note: these last three prefectures are also "claimed" by other regions). The Kansai region is Japan's second-largest industrial, financial, commercial and population center after the Tokyo area (Kanto). Located about halfway between Tokyo and the southern tip of Honshu, Japan's largest island, it is the birthplace of the country's trading companies, home to several of the world's largest banks, a number of the world's largest corporations, and the world's sixth-largest stock exchange in terms of market capitalization. The Kansai region has a richly varied topography and covers an area with a radius of approximately 150 km (95 miles). While occupying only 10% of Japan's total land area, the Kansai has a population of some 24 million people (19% of Japan's total), mainly concentrated in the cities of Osaka, Kobe, Kyoto and Nara. As the traditional commercial center of Japan, Kansai is an economic giant, with a modern economy led by the solid performance of digital consumer electronics and strong growth in exports to China. In FY 2002, Kansai's GRP was larger than the GDP of either Canada or Mexico at 92 trillion yen (US\$741 billion at the 2002 rate of US\$1=124 yen).

Kansai offers many advantages to American companies looking to enter the Japanese market. Lower prices than Tokyo provide an incentive for firms to conduct business in the Kansai area. Though Osaka follows Tokyo as the second most expensive city in the world, the average Osaka office rental price in 2004 was approximately half of similar space in Tokyo's and labor and housing costs are also much lower than in Tokyo. The region affords superb transportation, communication and other infrastructure support. In addition, there is a progressive environment with a pragmatic, non-bureaucratic business orientation and the willingness to innovate. The highly competitive and entrepreneurial Osaka business community is always willing to try new ideas. For example, Japanese instant noodles, karaoke, business hotels, automatic vending machines and underground shopping malls all made their debut in the Kansai region before being adopted in other parts of Japan, making Kansai a great point of entry. Consumers in the Kansai have a reputation for being particularly choosy and demanding, so that many companies, including Procter and Gamble, consider the area to be a great place to do product testing and market acceptability studies.

Kansai is the home of many important Japanese companies, including Nintendo, Kyocera, Panasonic, and National, and the center of Japan's textile and apparel, sporting goods, electronic component, pharmaceutical and chemical industries. Eighty-one Japanese corporations were listed in *Fortune* magazine's "Global 500" in 2005, and 15 of these were Kansai-based. In addition to being the headquarters of such large companies as Matsushita, Sanyo, and Sharp, the region is also a center for medium and small enterprises: 86% of all manufacturers in this region have less than 30 employees. Many of Japan's foremost trading companies started in Osaka, a city with a population of over 2.6 million; the surrounding area of Osaka Prefecture has 8.8 million people, equal to 7% of Japan's total population. A total of 4,192 companies in the Kansai region have overseas subsidiaries, with 73% of these companies located in Osaka.

Although the numbers are down over the last several years, Kansai local governments (Hyogo and Osaka Prefectures and the cities of Kobe and Osaka, in particular) still have public works projects planned that amount to several billion dollars. As in previous years, these consist of massive land reclamation and improvement projects, complexes for commercial use, industrial and research facilities, and waterworks and waterfront projects (e.g., Kansai International Airport, North Umeda Train Yard Redevelopment Project). In March 2001, Universal Studios Japan opened a \$1.8 billion theme park on a 56-hectare site in Osaka's Konohana waterfront area. The construction of another man-made island designated as a second runway and terminal facilities for the Kansai International Airport (KIX) is nearing completion. A new domestic airport for the city of Kobe, on reclaimed land, is also in progress and is scheduled to open in February 2006.

The Kansai region has a very efficient and comprehensive transportation infrastructure. In 2007, the Kansai International Airport (KIX), the only 24-hour airport in Japan, is scheduled to put its new, 4000-meter long second runway into service. KIX is increasing its international flights, particularly to Asian cities, and has a well-developed link with China that exceeds that of Tokyo's Narita International Airport in terms of the number of the connected Chinese cities. As of summer 2005, KIX has 712 flights per week, the largest number since the opening of the airport in 1994, and connects with 75 cities in 31 countries/regions all over the world. Itami Airport and the soon-to-be-opened Kobe Airport serve regions throughout Japan. In addition, major ports such as Osaka and Kobe Ports provide customs clearance and shipping facilities, and the regional rail network is extremely comprehensive. This includes Shinkansen, or "Bullet Train" access in Kansai's major cities, which provide quick and reliable transportation to Tokyo and beyond.

In 2004, 274 conferences were held in Osaka, and Kansai hopes to prosper as one of the country's major convention destinations. In addition, the cities of Osaka and Kobe, plus Hyogo Prefecture, have been aggressively marketing the merits of investing in the region. Incubation facilities, such as Imedio (Incubator for Multimedia Industry Osaka), the Business Innovation Center Osaka, Kyoto Research Park (KRP), and the Kobe Industrial Promotion Center, offer office space as well as consultation services for new businesses. While not available until recently, such business incubator space, tax breaks for new businesses, and other economic development incentives are now increasingly commonplace.

In 2001, the Japanese government approved a scheme to make Kansai a biotechnology hub. Kansai has great strengths in the biotechnology field, due to a concentration of pharmaceutical, chemical, textile, and precision machinery companies that have

diversified into the bio-genome industry. Along with these private companies are many national, prefectural and university-affiliated research laboratories, creating a community of researchers, academics and businesspersons. With more than 1,000 private research institutions in the Kansai, as well as an accumulation of university research institutions, Kansai is a hub for research and development in Japan. As of the beginning of 2005, more than 90 companies have moved into targeted hub areas in Kobe and Osaka, and similar hubs and research centers focusing on life sciences and biotechnology can be found in Kyoto, Nara, Wakayama, and Shiga Prefectures. This works to promote technology transfer and exchange of technical information as well as to support the establishment of venture companies resulting from their research. Osaka is also developing a robotics research center and hosted the RoboCup competition and exhibition in July 2005.

Nearly 85% of the foreign companies in Japan are concentrated in Tokyo and surrounding areas, and just 8.1% are in Kansai. Of these, totaling 273 in 2004, 51.6% are from Europe and 31.5% are from the United States. In Kansai, the concentration of European and Asian companies is high in comparison with Japan's overall total, which is characterized by a high share of U.S. companies. Of the foreign affiliates operating in Kansai, 43.2% are in the manufacturing industries, such as chemicals and pharmaceuticals, general machinery and electrical machinery, while the rest are engaged in non-manufacturing areas such as wholesale of machinery and chemicals, and the information and service sectors. One of the most significant recent trends has been the rapid expansion of U.S. companies in the retail sector with store openings for Costco, Tiffany's, and Chelsea Premium Outlets over the past several years. The Starbucks and Seattle's Best coffee house chains are well established and continuing to expand.

Because of its geographical and traditional proximity to the Asian continent, trade with Asia is particularly large in the Kansai region. As seen in the data for 2004, the ratio of Asian trade in both Kansai's exports and imports is relatively high compared to the figures for Japan as a whole. The Osaka Customs Office, which covers Toyama, Ishikawa, Shiga, Kyoto, Nara, Osaka, and Wakayama Prefectures, reports US\$117.5 billion (US\$1=108 yen) in exports and US\$86.2 billion in imports in 2004. These figures represent 13.5% and 11.3% increases, respectively, over 2003. Although trade with Asia declined after the Asian economic crisis in 1998, it has once again picked up. More than 55% of both Kansai's exports and imports are within Asia. Exports to the U.S. were 16% percent of the total, while imports from the US represented 10% of all imports with a value of US\$8.3 billion. Imports from the US increased by 13% in the first 7 months of 2005, with large percentage increases in the import of tobacco and medical products.

Commercial Service Osaka-Kobe aggressively promotes and advocates for American companies, especially in public works projects, sporting goods, apparel, textile, housing, as well as medical, biotechnology, environmental, and high-tech industries. Working closely with the American Chamber of Commerce in Japan (ACCJ) and other regional multipliers, CS Osaka helps promote American products, services and tourism through a number of ways and means such as targeted events, U.S. Pavilions at trade fairs, market research on emerging commercial opportunities, business counseling, networking, partnership searches, key introductions, and advocacy. For more information, please visit our CS Japan website at www.buyusa.gov/japan/en.

Strategically located midway between the Tokyo and Osaka metropolitan areas, the **Chubu Region** of Japan consists of nine prefectures — Aichi, Ishikawa, Fukui, Gifu, Mie, Nagano, Shizuoka, Toyama, and Yamanashi — clustered together in the center of Honshu, Japan's largest island (though some of these prefectures are also claimed by other regions, as mentioned above). Taken together, these nine prefectures have a total population of 21 million, making Chubu the third most populous region in the country. Most of the region's population and industry is concentrated along the Pacific coast, in an area known as the Tokai Region (Aichi, Gifu, Shizuoka, and Mie Prefectures).

Chubu is the manufacturing heartland of Japan and an export powerhouse. Supported by well-developed infrastructure and advanced manufacturing technology, the region is home to world-class Japanese manufacturers Toyota Motor Corporation, Daido Steel, Brother Industries, Makita, Denso Corporation, Yamazaki Mazak, INAX, Suzuki Motor, Yamaha, Noritake, NGK Insulators, and many others. The region as a whole accounts for roughly 17 percent of Japan's GNP and roughly half of Japan's total trade surplus with the United States.

The political, economic, and transportation center of the region is the City of Nagoya and surrounding Prefectures. Aichi Prefecture ranks first among all Japanese prefectures in terms of the monetary value of its product shipments. Nagoya is one of Japan's premier industrial and technological centers as well as a huge market in its own right. Despite being a major economic center, the city is well known for its high quality of life and competitive business costs. Housing costs and office rents are substantially below those found in Tokyo or Osaka. Assisted by METI, Nagoya's three closest Prefectures of Aichi, Mie and Gifu along with various cities and Chambers of Commerce have been actively promoting foreign direct investment in the region with a "Greater Nagoya Initiative" campaign. Dana Japan, Cabot Microelectronics, TRW Steering Systems, Pfizer Pharmaceuticals, and PPG Industries are but a few of the many American firms that have set up manufacturing or distribution bases in and around Nagoya. American chains Kinko's, Toys' R Us, Starbucks, and The Sports Authority have also opened outlets in the area.

The Nagoya Station neighborhood symbolizes urban development in the region. The JR Central Tower opened above the station in March 2000. This multi-million dollar project, which includes a 780-room Marriott hotel, has redefined Nagoya's skyline and injected cosmopolitan style into the city's hospitality and retail industries. In 2007, Toyota Motor Corporation plans to move many of its headquarters' functions to a planned skyscraper across the street from this complex.

The Chubu Region is home to a number of major projects that offer opportunities for cost-competitive U.S. firms. The \$5.9 billion Central Japan International Airport (known as "Centrair") is a 24-hour airport built on a man-made island in Ise Bay. American architectural design, construction, and airport equipment firms won tenders on crucial areas such as the construction of the passenger terminal building and supply of the airport's information and communication network system. Centrair opened on February 17, 2005 prior to the start of Aichi EXPO 2005, a six-month environmental world's fair that attracted 20 million visitors. Other major projects include construction of segments of the \$32 billion second Tomei-Meishin Expressway, a new six-lane freeway that will connect Tokyo and Kobe through Nagoya.

Through its close relationship with Chubu public and private sector entities, the Commercial Service in Nagoya works to uncover commercial opportunities for U.S. firms in a variety of sectors. CS Nagoya believes that particularly good prospects exist for U.S. firms in architectural design and construction services, intelligent transportation systems (ITS), environmental remediation, automotive parts and recycling technologies, and business aviation.

The **Kyushu/Yamaguchi** Region of southwestern Japan consists of seven prefectures on Kyushu Island (Fukuoka, Oita, Saga, Nagasaki, Kumamoto, Miyazaki, Kagoshima) and Yamaguchi prefecture on the southern tip of Honshu, with a combined population of over 15 million. The region's \$410 billion economy constitutes Japan's fourth largest economic center, representing about 10 percent of national GDP — larger than that of Australia and almost equal to that of South Korea. This region is traditionally known as Japan's gateway to Asia and enjoys extensive historical, cultural, and trade ties with continental Asia, particularly South Korea, Taiwan and mainland China. The United States remains an important trading partner, but trade with Asia is predominant and Kyushu is becoming increasingly integrated into the East Asian regional economy.

Kyushu boasts an economic growth rate above the national average, and its dynamism stems from a diversified economy that includes many high-tech industries. Dubbed Japan's "Silicon Island," Kyushu accounts for 30% of Japan's total production of semiconductors. Northern Kyushu also boasts over 10% of Japan's automobile output, with Toyota, Nissan, and Daihatsu operating state-of-the-art components manufacturing and final assembly facilities. Mazda also has a large assembly plant in Yamaguchi. Total auto production in Kyushu is expected to exceed one million cars annually by 2006. As a leading center for research, Kyushu hosts numerous R&D facilities in such diverse fields as consumer electronics, biotechnology, robotics, ceramic materials and high-speed ocean transport carriers. The southern prefecture of Kagoshima is home to Japan's two space launch facilities at Uchinoura and Tanegashima. Other important industries include steel manufacturing, shipbuilding, tourism, commercial fishing, and agriculture.

With a population of 1.3 million, Fukuoka City is the economic, educational, and cultural center of Kyushu. While manufacturing is prevalent in Fukuoka prefecture's surrounding areas, the city's economy is services-based, with many large retail outlets and regional headquarters offices for banking, insurance, and real estate. Living expenses (including housing) and office rents are lower than in Japan's other large metropolitan areas. The city enjoys excellent transportation infrastructure, including Kyushu's principal international airport, high-speed ferry service to South Korea, and the southern terminus for Japan's *shinkansen* (bullet train) network. *Asia Week* magazine selected Fukuoka as "the most livable city in Asia" in 1997, 1999 and 2000.

The Economic/Commercial Section of the U.S. Consulate in Fukuoka has been actively assisting U.S. businesses and promoting their interests in the region for over 40 years. The Consulate believes many sectors of the Kyushu/Yamaguchi economy offer promising opportunities. With its long history of openness to foreign influences, the Fukuoka area has an established reputation as a useful test market for new consumer products, services, and retail concepts before they are expanded to wider areas of Japan. Familiar U.S. retail names (Toys 'R' Us, Costco, Starbucks, and The Gap, just to name a few) have an active market presence. Major American companies have established research and production facilities in electronics, computers, and medical

devices, and are also active in architecture, design and construction, energy, insurance and finance. In recent years U.S.-based investment funds have made major acquisitions of hotels and related leisure and retail facilities in Kyushu. Another sector of growing interest is environmental products and services. In particular, Kitakyushu City in Fukuoka prefecture, a historical center of heavy industry, is seeking to become a regional leader in environmental remediation and recycling. Good export prospects exist in many other sectors, including building materials, medical equipment, and health care products.

Northern Japan — Hokkaido and Tohoku — has a combined population of 11 million and a GRP of approximately \$417 billion (as of 2002). Hokkaido, located roughly 500 miles north of Tokyo, is Japan's northernmost island. Sapporo, Hokkaido's capital and largest city, has a population of 1.9 million. The Tohoku region consists of six prefectures in northern Honshu, Japan's main island. The Commercial Service Sapporo covers four of these prefectures: Aomori, Akita, Iwate, and Miyagi (in addition to Hokkaido). Sendai, Tohoku's economic and commercial center and the capital of Miyagi, has a population of just over 1 million.

The region is Japan's agricultural heartland, with dairy production and farming in Hokkaido and highly prized rice growing regions in Akita and Miyagi. With a GRP of \$186 billion, Hokkaido's share of agricultural and dairy production leads Japan. The region is first in production of beets, kidney beans, potatoes, wheat, soybeans, onions, pumpkins, carrots, radishes, milk, beef and many other agricultural products. Hokkaido supplies 57.2% of Japan's wheat, 30% of its potatoes, and 43% of its milk. In addition, the region provides 27.9 % of Japan's fish catch.

In 2003, northern Japan's direct imports from the United States amounted to approximately \$1.7 billion. More than an additional \$1.0 billion in U.S. imports to northern Japan also entered Japan through Tokyo, Yokohama and Osaka before being transshipped to their final destination in the north. These transshipment costs — and high transportation costs in Japan, in general — can add significantly to the costs of shipping products from the United States to seaports and airports in northern Japan. As a result, container traffic from the United States is increasing at the ports in Ishikari and Tomakomai (both convenient to Sapporo) and Hachinohe (in the Aomori Prefecture) and Sendai, as a way to reduce transportation costs. In addition, increasing numbers of U.S. containers are arriving in northern Japan through the port of Pusan, South Korea (which has a special docking agreement with the port of Ishikari) as Pusan's port and cargo handling charges are much lower than in those in Tokyo, Yokohama and Osaka. As for rail links, the Governor of Hokkaido announced in the fall of 2004 that the *shinkansen* (bullet train) will be extended to Sapporo. The local business community expects that this development will produce major beneficial economic effects.

Northern Japan's two main international airports — Chitose (Sapporo) and Sendai — have good passenger and cargo handling capacities and are eager to develop more international routes. Growing economic ties with the Russian Far East and the prospect of future development in Russia's oil and gas sector have led to regular commercial flights between Hokkaido and Sakhalin. In recent years, Hokkaido demonstrated its continuing ability to draw tourists from home and abroad. Statistics show a rapid increase of tourists from neighboring Asian countries. Taiwan has led the way with over 20,000 visitors to Hokkaido, and Korean, Hong Kong, and Chinese visitors are increasing as well. The number of tourists from Australia has also shown a tremendous growth in recent years, which, beginning in 2004, has led to seasonal direct flights between Cairns and Sapporo. The number of Australian visitors increased from 3,700 in year 2000 to 15,000 in 2004.

Northern Japan's well-developed infrastructure, highly skilled workers, and relatively low real estate costs, combined with city and regional government investment incentives, have prompted many U.S. companies to view Hokkaido and Tohoku as attractive locations for investment and overseas operations. Amazon Japan (Amazon.com's Japanese subsidiary), for example, selected Sapporo over other cities in Japan for the Call Service Center it established in 2001. LaSalle Investment, another U.S. company, has built an outlet mall in Chitose, which opened in April 2005. Other U.S. investment firms have bought hotels and office buildings during the past couple of years and, as real estate prices began to rise in 2004, more firms are showing interest in purchasing properties in northern Japan. As for export opportunities, home building products and interiors, packaged homes, pharmaceuticals, medical equipment, and marine products continue to be particularly promising sectors in northern Japan.

Okinawa Prefecture has a population of 1.36 million and a GPP (Gross Prefectural Product) of approximately \$31.8 billion (3,500,063 million yen @ \$1=110 yen). By Japanese standards, Okinawa's market is relatively small, but there are still significant opportunities. American companies are helped by the fact that Okinawans tend to be open to imported foods and consumer goods, especially from the U.S. Okinawa also has the youngest workforce in Japan, a workforce that is well educated and is actually still growing, thanks to a robust birthrate. Okinawa also has the lowest wage and commercial property rates and a range of tax incentives and subsidies for potential investors and employers (see below for details).

The two largest sectors of the local economy are construction and tourism, areas in which U.S. companies excel. One large-scale public investment project in the works is the establishment of the "Okinawa Institute of Science and Technology," a project that is hoped will play a major role in the economic and social development of Okinawa in the coming years. The Japanese Government's Cabinet Office has requested roughly \$98 million for the project for FY2006. American companies are expected to be competitive with their off campus and other related facility design expertise. An American company has already won the tender for the master design of the project with two other Japanese design companies. The plan to build a new airport on the nearby island of Ishigaki has also been approved by the central government and budgeted for construction. Also, the U.S. Naval Hospital Okinawa, which is the largest overseas hospital in the U.S. Navy system, is in the process of moving its facilities. This project is expected to offer business opportunities to U.S. firms involved in medical equipment and supplies.

The number of tourists visiting Okinawa has grown steadily. In 2005, over 5.40 million people visited the island. The Okinawa prefectural government has set a goal of 5.80 million tourists for 2007. Okinawa offers American firms potential business opportunities in connection with first class resort hotels, hotel operations and marine sports, out door equipment and related services. In addition, the continuing development of Okinawa as a retirement center for Japan may also offer attractive business opportunities. It should be noted that about 23,000 mainland Japanese move to Okinawa each year to take advantage of the warm climate, beautiful beaches, great food, and friendly people.

Okinawa Prefecture is also promoting policies to encourage the introduction of FDI. For example, Okinawa has established the first and so far only Special Free Trade Zone in all of Japan. Various tax incentives apply to, not only the Special Free Trade Zone, but to the Information and Communications Industry Promotion Zone, Special Information and Communications Industry Zone and Financial Businesses Promotion Zone as well. These incentives include exemptions on the payment of national and local taxes. There are other

incentives available only in Okinawa, including subsidies to promote the employment of Okinawa youth and support measures to reduce domestic and overseas communication costs.

One sector that has benefited from central government and OPG support has been Okinawa-based telephone call centers, including the high tech "server farm" at Ginoza. In all, the OPG has succeeded in inviting 36 call centers and another 60 IT-related companies to the island and since 1990. These companies employ close to 9,000 people — 7,300 in call centers and 1,500 in IT. Participating companies include American firms such as IBM, American Home Insurance (AIU), CITIBANK, Cisco Systems and Oracle.

Government Role in the Economy

[Return to top](#)

Traditionally, the bureaucracy — created in 1868 — has played a leading role in the Japanese economy. The ministries' power was drawn from the thousands of required licenses, permits and approvals that tightly regulated business activity in Japan and by informal, but in practice virtually compulsory, edicts called "administrative guidance." The reach of the bureaucracy has been further extended by a plethora of organizations that perform semi-regulatory functions. Business in Japan has maintained very close relations with the bureaucracy and politicians—a set of relationships commonly referred to as the "iron triangle." Japanese ruling party politicians have depended on contributions by business. Major companies and industry associations also provided lucrative *amakudari* ("descent from heaven") employment for high-level bureaucrats retiring from government service. Bureaucratic paternalism blocked new companies from entering the market and pushed up prices. Members of the Japanese National Diet (parliament) have small staffs and traditionally have relied on bureaucrats for policy initiatives and the drafting of legislation.

The role of government institutions in the economy has been changing over the last several years as Tokyo pursues administrative reform and deregulation. On January 6, 2001, the bureaucracy was reorganized from 22 ministries and agencies to 13. A Cabinet Office was established and located above the other ministries on government organization charts to serve as a think tank for politicians and to coordinate policies among the other ministries. At the same time, the number of politicians posted to senior positions in the ministries was increased from an average of two or three to five, to try to increase the administration's control over the bureaucracy. The reorganization — together with changes to political contribution laws, stricter guidelines on the use of administrative guidance, and increased criticism of "descent from heaven" (*amakudari*) employment practices — is slowly eroding the strength of the "iron triangle" (close relations among business leaders, the bureaucracy and the politicians), and weakening the bureaucracy's influence over the economy.

Until 1980, the Japanese Government controlled access to the market by allocating foreign exchange and by conditioning foreign investment approvals on technology transfer to Japanese companies. These controls are largely gone, but the Japanese Government continues to play a significant role in promoting certain favored industries. Many bureaucrats believe that the proper role of a national government is to lead industry into higher value-added manufacturing. While nods have been made in the direction of improving the average citizen's standard of living, GOJ policy and regulatory framework continue to favor domestic producers over consumers. This can sometimes translate into a "protective attitude" when it comes to foreign competition and new products from the outside.

When Japan's asset "bubble" burst in 1991 and the economy worsened, businesses strengthened their call for deregulation of the economy in order to stimulate growth and to respond to foreign competition. At the same time, companies began to move production off shore in order to cut costs. This prompted fears of a "hollowing-out" of Japanese industry. In areas where deregulation effectively took place, such as consumer goods and distribution, markets experienced explosive growth and imports reached previously unheard of highs. However, in areas like industrial goods, deregulation efforts have been less visible.

In general, it is increasingly possible for foreign companies to participate in the Japanese market. The Japanese Government has removed most legal restrictions on exports and foreign investment in Japan. The U.S. and Japanese governments continue to work on removing anti-competitive and exclusionary business practices and resolving market access problems through bilateral dialogue. Under the Economic Partnership for Growth, launched by President Bush and Prime Minister Koizumi in June 2001, the U.S. and Japanese governments have worked to cut regulations in sectors of key economic importance where U.S. firms are globally competitive — telecommunications, medical equipment and pharmaceuticals, energy (including power generation and transmission equipment), information technology, insurance, and financial services. Prime Minister Koizumi is taking new approaches to restructuring Japan's economy. For example, his administration's initiative to create Special Zones for Structural Reform (SZSR) is an attempt to revitalize Japan's regional economies through locally-led regulatory and structural reform. The new Industrial Revitalization Corporation of Japan, established in May 2003 aims to accelerate non-performing loan workouts by helping viable debtor companies restructure and return to profitability.

While Japan's business system is different from the United States, American companies can successfully adapt. The 1,000 company, 3,200 member American Chamber of Commerce in Japan (ACCJ) is the largest overseas AmCham in the world, and its 40-plus committees and sub-committees are highly visible lobbyists for U.S. business interests. U.S. Embassy officers are liaison to over 20 of these committees, and work closely with the ACCJ on market access and investment issues. Some knotty regulatory barriers and discrimination still exist, and when a company cannot solve such problems by itself or through its legal advisers in Japan, the U.S. Government stands ready to help.

Infrastructure

[Return to top](#)

Japan has a fully developed physical infrastructure of roads, highways, railroads, airports, harbors, warehouses and telecommunications for distribution of all types of goods and services. Japan is also engaged in a large, though slightly reduced, expansion of public works projects both to enhance the business infrastructure and to help stimulate the economy. However, urban roads and highways remain inadequate, overcrowded, and toll roads are expensive. In addition, Japan's airports, among the world's most expensive, contribute to the high cost of doing business. Japan's port practices are generally opaque and inefficient by global standards; and import processing, while improving, remains relatively slow. Japan has recently made progress, reducing Customs overtime fees by fifty percent and extending hours of operation at major air and seaports to make them 24/7 facilities. More reforms, however, are needed if Japan is to once again become internationally competitive.

General

U.S. State Department *Background Notes* www.state.gov/r/pa/ei/bgn

Foreign Agricultural Service www.fas.usda.gov/

Commercial Service Japan www.buyusa.gov/japan/en

Ministry of Economy,
Trade and Industry www.meti.go.jp/english/

Tokyo & Kanto Area

Tokyo Metropolitan Government (Tōkyō-cho) www.metro.tokyo.jp/ENGLISH/

Tokyo Chamber of Commerce & Industry www.tokyo-cci.or.jp/english/

Kanto Bureau of Economy, Trade, and Industry
(a division of the Ministry of Economy, Trade
and Industry — METI) www.kanto.meti.go.jp/english/

Chiba Prefecture www.pref.chiba.jp/english/

Saitama Prefecture www.pref.saitama.lg.jp/index_e.html

Kanagawa Prefecture
(includes city and port of Yokohama) www.pref.kanagawa.jp/menu/english.htm

City of Yokohama www.city.yokohama.jp/en/

Kansai (Osaka-Kobe)

Kansai Economic Federation (Kankeiren) www.kankeiren.or.jp/English/index.htm

Osaka Chamber of Commerce & Industry www.osaka.cci.or.jp/e/

U.S. Commercial Service Osaka-Kobe osaka-kobe.office.box@mail.doc.gov

Chubu (Nagoya)

Chubu Economic Federation www.chukeiren.or.jp/english/index2.html

U.S. Commercial Service Nagoya nagoya.office.box@mail.doc.gov

Hokkaido/Sapporo

Hokkaido Development Bureau www.hkd.mlit.go.jp/eng/index.html

Sapporo Chamber of www.sapporo-cci.or.jp/worldbusiness/

Commerce & Industry

U.S. Commercial Service Sapporo

misa.shimizu@mail.doc.gov

Kyushu

Kyushu-Yamaguchi Economic Federation (Kyukeiren)

www.kyukeiren.or.jp/english/index.html

Fukuoka Chamber of Commerce and Industry

www.fukunet.or.jp/

Fukuoka Foreign Trade Association

www.fukuoka-fta.or.jp/

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Okinawa

Let's Do Business in Okinawa

www.okinawa-ric.or.jp/kaigai/eng/index.html

Okinawa Free Trade Zone

www.pref.okinawa.jp/zone/

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[Return to table of contents](#)

U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>.

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.

[Return to table of contents](#)



Doing Business in Japan: A Country Commercial Guide for U.S. Companies

Chapter 3: Selling U.S. Products and Services

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- [Using an Agent or Distributor](#)
- [Establishing an Office](#)
- [Franchising](#)
- [Direct Marketing](#)
- [Joint Ventures/Licensing](#)
- [Selling to the Government](#)
- [Distribution and Sales Channels](#)
- [Selling Factors/Techniques](#)
- [Electronic Commerce](#)
- [Trade Promotion and Advertising](#)
- [Pricing](#)
- [Sales Service/Customer Support](#)
- [Protecting Your Intellectual Property](#)
- [Due Diligence](#)
- [Local Professional Services](#)
- [Web Resources](#)

Using an Agent or Distributor

[Return to top](#)

Establishing a direct presence in Japan is the best way to penetrate the Japanese market, but can be a prohibitively expensive strategy to launch. The use of agents/distributors is a more realistic marketing strategy for a small or medium-sized U.S. firm, but this approach requires great care in the selection of the representative.

Distributors in Japan usually cover a specific territory or industry. Import agents are often appointed as sole agents for the entire country (although there is no statutory requirement that this be done). In some cases exclusivity may be necessary to ensure a strong commitment by the Japanese agent towards expanding sales. But under no circumstances should a U.S. company be pressured into handing over control of the whole market if there is doubt as to the ability or willingness of the Japanese company to develop the entire market. Regional exclusivity, a limited term of representation, minimum sales, or qualitative indicators of sales efforts are good strategies as a safeguard in exclusive agency contracts.

While the Japanese Fair Trade Commission has guidelines applicable to exclusive agency contracts, there are no statutory damages required upon termination of an agency contract. Given the close-knit nature of business circles and the traditional wariness towards foreign suppliers, replacing a Japanese agent or distributor could cause reputation problems if not handled in an extremely sensitive manner. The U.S. company may be viewed as lacking adequate commitment to Japanese business relationships. Japanese agents may request "parting compensation" in the event the foreign exporter decides to dissolve a business relationship. It's a common practice domestically, so U.S. companies should address the eventuality with a potential agent/distributor prior to executing a contract.

A common mistake made by many U.S. firms is to try to use a list of importers as a basis for "cold calls" on prospective agents. The Japanese prefer to do business with someone only when they have been properly introduced and have met face-to-face. To help dispel reluctance on the Japanese side, an introduction by a "go-between" typically serves to vouch for the reliability of both parties. Appropriate third parties for such introductions include other Japanese firms, U.S. companies that have successfully done business in Japan, banks, trade associations, chambers of commerce, the U.S. Department of Commerce and the U.S. Commercial Service in Japan. U.S. state representative offices in Japan, JETRO, or even Japanese government ministries can also offer assistance.

U.S. companies should be selective in choosing a Japanese business partner. Credit checks, a review of the Japanese company's industry standing and existing relations with Japanese competitors, and trust-building are all part of the process. A company should conduct the same due diligence that it would do if it were partnering with another U.S. firm.

Part of the difficulty in choosing a Japanese agent is assuring that the agent will devote sufficient attention to expanding the market share of the U.S. product. A U.S. company should probably avoid a distributor that targets only limited, high-price niches; is compromised by strong ties to one particular industry group (*keiretsu*); fails to compete directly with established Japanese products; or is not prepared to pursue volume sales for the U.S. exporter. Also, companies should be wary of distributors that co-handle competitors lines, or products that are complimentary in nature and could present conflicts of interest for the distributor.

To attract a Japanese business partner, a U.S. exporter must present an image of dependability, innovation, superior quality, competitiveness, and a commitment to building personal relationships. A U.S. company should show that it is well regarded in its industry; that it has researched the market; that it is prepared to respond to cultural requirements (e.g., by preparing high-quality marketing materials in Japanese on the company and its products/services); and that it responds promptly to all inquiries from Japan. Frequent communication by fax, email or phone is crucial. Regular visits to Japan are a must, as are offers to host new partners on reverse trips to U.S. headquarters to view manufacturing and operations.

Although still very costly, establishing a presence and an office in Japan has become a less expensive undertaking given the recent decrease in the cost of labor, office rent, and other expenses.

A U.S. company that wishes to collect information and/or improve communication with business contacts in Japan may wish to establish a representative office. A liaison office can obtain market data and other information and provide necessary promotional and service support. A representative office is not subject to Japanese taxes and it is not necessary to obtain special approval to be established. However, a representative office must not involve itself in commercial transactions or generate income, and therefore cannot handle commercial orders directly. The liaison office may provide guidance and support to an agent and manage all marketing activities except for the actual sale.

A branch office of a U.S. company can engage in trading, manufacturing, retailing, services, or other business. A branch office may take and fill orders and carry out a full marketing program, including arranging for advertising, recruiting a sales force and performing all necessary promotional activities. A branch is liable for payment of Japanese taxes. The branch must appoint a resident representative in Japan and must register with the Legal Affairs Bureau of the Ministry of Justice. In addition, the establishment of a branch office is considered a direct investment under the Foreign Exchange and Foreign Trade Control Law requiring reporting to the Ministry of Finance through the Bank of Japan within 15 days after the establishment of the branch office. Prior notification is required when the investment involves types of industries that could endanger Japan's national security, or disrupt the country's law and order, and also which might adversely and seriously affect the smooth performance of the Japanese economy. Industry sectors that may be affected include aircraft manufacturing, arms, nuclear energy and related industries, narcotics and vaccine manufacturing, agriculture, forestry, fisheries, oil, and leather product manufacturing.

An alternative to a branch office is a wholly owned corporation. Prior notification is required when the investment involves the industry sectors listed in the previous paragraph. Setting up a wholly-owned subsidiary will involve more time and expense, but it can offer an effective means to guarantee better protection for proprietary information, obtain credit and penetrate markets which have subtle but substantial barriers to imports.

A fourth approach is to pool resources of several firms having complementary product lines. Such a group might establish a marketing association, consortium, or jointly owned export management company, and set up a sales and service branch or subsidiary office in Japan. The financial crunch affecting many Japanese companies now provides U.S. companies with excellent opportunities to establish or acquire businesses in Japan.

U.S. companies should also carefully examine the Japanese Ministry of Economy, Trade & Industry's (METI) programs for promoting imports and foreign investment into Japan. Programs include loans available through the Japan Bank for International Cooperation and the Development Bank of Japan. Entry-level business-support programs are provided by the Japan External Trade Organization (JETRO) as well as some municipal and prefectural governments. Current information on investing in Japan, establishing an office, and other JETRO programs for foreign businesses can be found on JETRO's website at www.jetro.go.jp/en/invest/setting_up/section1.html.

Franchising

[Return to top](#)

With over 1,000 chains, Japan's franchise industry is the second largest in the world in total sales, and the number of outlets exceeds 225,000. The aggregate size of the franchise market in 2004 was 18,722.3 billion yen (US\$173.1 billion), up 4.8% from the previous year. Approximately 39.1 percent of total sales at franchise outlets are from convenience stores, and about 20.5 percent from food service chains.

American franchising heavily influenced the development of Japan's franchise industry in the 1980s and many successful U.S. chains entered the market during this period. Although Japanese consumers are generally receptive to American franchise concepts, products and services must be localized to ensure success in Japan. U.S. franchisers are more often successful by seeking either a master franchisee or joint venture partner to develop the market in Japan.

Identifying the right business partner in Japan requires time and effort, and it can be difficult to find companies that are willing to invest in master franchise rights. Therefore, prudent market research and long-term commitment are required for foreign companies to launch franchise businesses in Japan.

Direct Marketing

[Return to top](#)

Direct marketing, which includes mail order, telemarketing, direct response television, and Internet sales, is an attractive sales method for suppliers attempting to reach the Japanese consumer while bypassing traditional distribution channels. Direct marketing sales are still modest by U.S. standards but increasing rapidly, particularly in the case of Internet sales.

Shopping from foreign catalogs, whether hard copy or on the web (generally referred to as "personal importing"), surged in the mid 1990s as a combination of novelty, a very strong yen, and an appreciation of foreign consumer goods grew. Although providing adequate customer service and handling product returns challenged those firms that did not have in-country representation, many U.S. companies enjoyed an enormous expansion of orders from Japan. Since 1996, however, the strengthening of the dollar and the passing of the "fad" component of the boom has caused the market to cool considerably. Nevertheless, opportunities still exist for companies that can offer Japanese consumers quality products with unique attributes. Further, the dollar has weakened substantially in the past years, and this may help strengthen the industry.

U.S. companies must overcome a number of challenges such as language, international shipping costs, tariffs, and other issues that pertain when marketing directly to a Japanese consumer (e.g., sizes in the metric system). U.S. companies aiming to enter this market should be prepared to make an investment in service and what is generally referred to as direct marketing infrastructure. A representative in Japan can act as a liaison with the U.S. supplier to handle receipt of claims, customs clearance, public relations and the preparation of Japanese-language materials. A local representative can also manage warehousing, delivery, and returns.

Joint Ventures/Licensing

[Return to top](#)

American companies with limited resources or a short investment horizon may wish to consider product licensing as a means of entering the market. The direct costs of finding an appropriate Japanese licensee are small compared to other forms of market entry. Once a suitable agreement is reached, a licensing fee and royalties are low-cost, low-maintenance income for the U.S. company.

However, U.S. companies should note that licensing represents a minimal form of participation in the Japanese market. Whether a company should license its technology depends upon several factors.

First, a U.S. company should consider its long-term plans for the Japanese and other Asian markets. Licensing necessarily means a loss of control over market strategy, and perhaps “opportunity costs.”

Second, U.S. licensors should understand the strength of their company’s patent protection in Japan. Japan uses a “first to file” patent system, and this has ominous implications should a licensee explore becoming a competitor.

Finally, the degree to which U.S. firms must disclose trade secrets or proprietary information is a key consideration.

A Japanese licensee’s interest or enthusiasm for the U.S. technology is a direct reflection of the licensee’s assessment of the product’s competitiveness and sales expectations in a technologically sophisticated market. Thus a U.S. company’s long-term interest may lie in another form of market entry, even if it carries higher costs and longer payback periods.

A licensor also sacrifices potential returns from manufacturing and marketing efficiencies. While Japan is a high-cost country for marketing, it is also a large market over which to spread the costs of marketing, even for relatively specialized technology. Even after adapting a product for the Japanese market, U.S. manufacturers may realize better profit margins and market penetration by selling their own product, as opposed to through a licensee.

Harder to quantify are the costs of managing or — in some instances — “policing” the licensing agreement. In the worst cases, a licensee will improve upon or modify the U.S. product or technology, patent it as its own, and become a competitor in Japan, the U.S. or third countries.

It is also possible that the Japanese licensee could under-report sales in order to remit lower royalty payments to the U.S. company. The final drawback of licensing is that it provides the U.S. company with very little information or practical experience in the market. The Japanese market is very demanding, and it is important for a US company to develop direct experience here in order to successfully expand its presence. Japan is also a very good, though demanding, training ground. American companies can apply the lessons learned here to other markets, as well as improve the quality of their product or technology through direct contact with the market.

The pitfalls mentioned above account for the declining popularity of licensing in some industries. However, it may still be the best path for products with short life cycles where short-term income generation is desirable. Despite the warnings above, it makes

business sense in industry sectors where the costs of entry are prohibitively high, or there are political sensitivities (such as defense-related equipment).

The key to a successful licensing agreement is a Japanese partner whose goals match those of the U.S. company. A strong licensee will have something to bring to the partnership as well. Perhaps the ideal license agreement will provide for an exchange of technology and know-how to strengthen both partners. It is essential that the U.S. licensor maintain close and frequent contact with the licensee, including visiting Japan regularly. A local representative, other than the licensee, can provide additional perspective on the market, and help represent both support and accountability to the licensee. Royalties paid by the Japanese licensee to the U.S. licensor are subject to a 20 percent withholding tax, which may be reduced to 10 percent if the necessary documentation is filed under the provisions of U.S.-Japan tax treaties.

According to Japan's Foreign Exchange and Foreign Trade Control Law, a foreign company granting a license to an independent Japanese corporation, either a wholly-owned subsidiary or a joint venture corporation that involves manufacturing in Japan, must notify the Ministry of Finance through the Bank of Japan in cases involving the transfer of specially regulated and/or designated technologies.

Additionally, the export of any form of technical data from the U.S. abroad is subject to U.S. export control laws. In this case, a thorough review of the U.S. Department of Commerce's Export Administration Regulations (EAR) should precede the signing of any licensing agreement.

Joint ventures remain a popular form of selling to Japan. Advantages include access to local market information and conditions, a stronger market presence, technology development, and gaining immediate access to a distribution system and customers. Most joint ventures take the form of a separate or third company established between an American and Japanese company, with a range of agreements covering shared functions, personnel, management, and ownership. In most cases, the Japanese partner has control over marketing and distribution functions. American companies must be prepared to share ownership, control, and of course profits, with its Japanese joint-venture partner, and therefore issues of communication, trust, and common business interest are absolutely crucial.

Joint-venture partnerships that involve technology transfer or license agreements with Japanese partners have the same pitfalls as a direct license agreement. The value of the joint venture may diminish as either party becomes less dependent on the other's marketing prowess, customer base, or technological innovations. American companies should also understand that many large trading companies have a large "ready-made" pool of existing customer relationships. This produces a rapid increase in initial sales, but once its "share" of the market is tapped, the Japanese partner often has little interest in prospecting for new customers, unless the product has extraordinary technological or price advantages. American companies should take the same precautions about divulging proprietary know-how in a joint venture as with license agreements.

A joint venture in Japan can be an unincorporated, contractual joint venture or an entity created by the acquisition of stock of an existing corporation. More typically, a JV is the incorporation either in the U.S., or more commonly in Japan, of a new company in which the Japanese and U.S. corporation mutually decide upon management control and the

roles and responsibilities of each party. The Ministry of Finance (through the Bank of Japan) must be notified of the establishment of any joint venture. In addition, if the joint venture is intended to last more than one year, the joint venture agreement must be submitted to the Japanese Fair Trade Commission for review within thirty days of its execution.

Selling to the Government

[Return to top](#)

On January 1, 1996, Japan implemented the WTO Agreement on Government Procurement in an effort to expand opportunities for foreign firms and increase international competition in government procurement in Japan. The agreement extended coverage to include the procurement of services as well as procurement throughout Japan by what are referred to as "sub-central government entities." These entities include all of the prefectural (regional) governments in Japan, major cities and designated municipalities, and a host of other quasi-governmental agencies, corporations, companies and authorities.

Government procurement contracts covered by the agreement must have a value not less than the thresholds (denominated in special drawing rights or "SDRs") specified by the agreement, and include the procurement of products and services by purchase, lease, or rental by the agencies and organizations subject to the agreement. Under the agreement, the specified threshold for procurement by central government entities is 130,000 SDRs (except for construction and architectural, engineering and other technical services). As a voluntary measure, Japan issued SDR thresholds beyond those specified in the agreement, e.g., 100,000 SDRs for procurement by central government entities (again, except for construction and architectural, engineering and other technical services). For sub-central government entities, with the same exceptions as above, Japan's threshold is 200,000 SDRs.

There are three types of government tendering procedures in Japan covered by the new agreement: (1) open tendering, (2) selective tendering, and (3) limited or single tendering. Under an open tender, the procuring entity publishes an invitation for qualified suppliers to participate in the tendering process. Contracts are awarded to the bidder that offers the greatest advantage in terms of price. Selective tendering is done in a case when open tendering is not necessary because there is only a small number of suppliers that could participate (due to the nature of the contract), or when open tendering is otherwise regarded as inappropriate. In this case, the procuring entity designates those companies it considers capable from a list of qualified suppliers and invites them to bid. Again, the contract is awarded to the bidder with the best price advantage. Limited (single) tenders award contracts without open competition. Limited tenders are used in a variety of cases (e.g., where products could not be obtained through open or selective procurement procedures, where there has been an absence of bids in response to a public notice, where it has been determined there is a need for protection of exclusive rights such as patents, or procurements of extreme urgency).

Open tender and selective tender invitations are published in Japan's official (central) government procurement gazette, called the *Kanpō*, or in an equivalent regional level publication, or other local publication. The procuring entity publishes the invitation to tender at least 50 days (40 days is required by the agreement) in advance of the closing date for receipt of bids. In order to increase access opportunities for foreign suppliers, as a voluntary measure, many procuring entities publish notices on the use of limited

(closed) tenders at least twenty days in advance of the awarding of a contract. When the tender is announced on open bids, the type and quantity of products, time limits set for submission of bids, and names and contact data of the procuring entity are published within the announcement in English. Notices on selective tendering also contain the requirements to be designated to participate in the tender. It is important to read the tender notice carefully (the English-language text is mixed in with the Japanese language text), and most companies find it useful to directly contact the procuring entity with any specific questions before a tender is submitted. Japan's Ministry of Foreign Affairs hosts a Government Procurement Seminar every April where central government procuring entities explain their procurement plans for the fiscal year. Individual ministries sometimes follow this with their own seminars as well. Notice of these meetings can also be found in the *Kanpō* gazette. U.S. suppliers can also find information about Japanese government procurement at JETRO's web site at www.jetro.go.jp/en/matching/procurement.

Potential suppliers must first be qualified by the procuring agency and registered on the tendering agency's permanent list of qualified suppliers. Each procuring entity in Japan specifies the qualifications required of any potential supplier participating in open or selective tenders. Procuring entities are allowed to review a company's capacity to implement a contract, including the scale of business and past business performance. In most cases, Japanese subsidiaries, agents, or distributors of a U.S. company can register on behalf of the firm. Documents required for qualification are set out in the public notice, but typically include: an application form, registration certificate, company history, financial statements, and tax payment certificate. The qualification is usually valid for one to two years.

Sealed bids must be submitted to the designated place by the closing date and time specified in the tender notice. Although a 5 percent guarantee fee is stipulated, payment of the fee is usually waived since those participating are normally pre-qualified. If there are tenders made by unqualified suppliers or in violation of the tender requirements, the procuring entity will rule them invalid and notify the unsuccessful bidder. The contract is normally awarded to the lowest qualified bid and bidders are informed of the result in writing by the procuring entity. Pursuant to the 1996 agreement, Japan has established a mechanism to process complaints about procurements by entities other than sub-central government entities. Complaints by qualified bidders may be filed with the Secretariat of the Board in the Office for Government Procurement Challenge System (CHANS), Coordination Bureau, Cabinet Office. For additional information, please click on www5.cao.go.jp/access/english/chans_main_e.html.

Distribution and Sales Channels

[Return to top](#)

Japan's distribution system remains complex, labor-intensive and filled with outmoded business practices. It is also expensive and accounts for much of the difference between prices in Japan and the rest of the world. The last decade was a difficult time for the distribution industry. Consumers demanded a more efficient market, lower retail prices and better selection of goods. This trend has become stronger, as Japanese buyers face tougher economic conditions. Nevertheless, the traditional system stubbornly survives in many industries. The drag on the domestic economy has been recognized, and is slowly changing, but remains a formidable barrier to imports and introduction of new goods and services.

Difficulties with Japanese distribution are often due to inherent, deep-rooted business practices. Domestic consumers have a strong demand for a wide variety of goods and services, but can be hesitant to disrupt longstanding relationships with suppliers — even when a U.S. supplier can offer a superior product at a lower price. Although the trend is changing, some retailers and wholesalers still fear retaliation from existing Japanese vendors if they switch to new overseas sources. At the same time, they may also be concerned that a foreign supplier will not make timely shipments or may lack adequate after-sales service ability, for which Japanese expectations run very high. These doubts stem in part from a traditional reluctance to do business with strangers, who could introduce uncertainty into predictable, existing business relationships. A clearly demonstrated commitment to foster long-term relationships with a Japanese counterpart is crucial to overcome this reluctance. An established presence in the market (if only through a knowledgeable and committed agent) is also vital to winning trust.

Until quite recently, about half of all consumer purchases were made at neighborhood "mom and pop" stores (with five or fewer employees), and these stores rarely carry imported goods. These stores often maintained strong ties to major domestic manufacturers that included product consignments, low interest loans, equity investments, and/or exclusive marketing arrangements. However, the economic stagnation over the past decade has taken a serious toll on small retailers. Their numbers are declining to such a level that soon they'll disappear — convenience stores, self-service discount stores, and "superstores" have taken over. The ascendance of more efficient retailers is also helping to reduce the layers in the distribution system and make imported goods more price competitive.

Imported consumer goods have traditionally been found at larger outlets such as department stores and discount houses. The new millennium has also brought about dramatic growth in specialty retailers, notably foreign names. Hand-in-hand with this development, direct importing — bypassing trading houses and as many other intermediaries as possible — has become increasingly popular as companies become leaner and more cost conscious.

As larger retail outlets have spread in Japan, the regulation of "large stores" (those stores with over 500 square meters of sales space) is now part of the bureaucratic landscape. In 2000, the Large-Scale Retail Store Location Law went into effect. The law is intended to give local authorities the power to regulate new large stores only on the basis of environmental considerations. METI has made clear its intent to assure that stiffer environmental standards be used and that the new law will be applied with reasonable uniformity to all localities. The new law applies both to new store openings and to significant changes in the business operations of existing stores (such as an expansion of floor space or an extension of business hours). Many municipalities in Japan are taking advantage of the new law to draft ordinances that mandate parking space provisions and operating restrictions stricter than national norms or those recommended by METI.

Japanese deflation has made consumers of the world's second largest economy appreciate low prices. Giant foreign distributors and retailers who survived fierce competition in their home and overseas markets with cost competitiveness and merchandise development have focused on the Japanese market. For example, Toys 'R' Us, which entered the market in 1991, now operates 140 stores in Japan. COSTCO opened its first store in 1999 and has expanded to four stores in four years. Wal-Mart,

which is in the process of buying out a Japanese chain store, Seiyu, has several hundred stores in Japan. Metro (Germany) opened its first store in December 2002 jointly with a Japanese major trading company Marubeni, to focus on food business customers. Tesco (UK) announced its entrance into the Japanese market by buying out a medium-size supermarket chain.

However, Japanese consumers do not always accept the "foreign" way of retailing, as the world's second-largest retailer, Carrefour of France, found out to its discomfiture. Despite changing their newest stores to a more "Japanese style" — for example, by lowering fixture heights, increasing delicatessen space, and adding prestigious brand-name merchandise that it does not carry in France — Carrefour's performance in Japan was lackluster. In March 2005, after a presence of a little over four years in this market, Carrefour sold all eight of its Japanese stores to a local company, admitting that the company's strategy had not been effective in Japan's business environment and that it should have entered the market in partnership with a Japanese firm.

Selling Factors/Techniques

[Return to top](#)

Sustained personal contact with customers is especially important. A visiting U.S. representative or resident agent in Japan should accompany their Japanese agent or distributor on visits to existing or potential Japanese customers. Making joint sales calls demonstrates commitment to the clients and is also an excellent way to obtain market feedback.

A common mistake made by U.S. companies in Japan is failure to provide ample support for their Japanese business partner after enjoying some initial successes, which can cause the relationship to turn sour after a successful honeymoon period. It is important to prevent a distributor from implementing a conservative, low-volume, high-markup marketing strategy that will protect their own interests while leaving the U.S. product's full sales potential undeveloped. Stay engaged!

To be successful selling in Japan, foreign exporters should know how to negotiate and maintain relationships with Japanese. Japanese language skills can be invaluable, as can a thorough background in Japanese culture and etiquette. Absent these capabilities, it remains just as important to be honest and direct, while avoiding appearing overbearing. Also be prepared to attend after-work social events. These informal gatherings go a long way towards establishing mutual trust and understanding between new partners. It's been said that most business deals in Japan are made "after five", that is, after work hours in a social setting.

Initial contacts between Japanese firms are usually formal and made at the executive level, while more detailed negotiations are often carried out at the working level. Typically, the first meeting is to get acquainted, establish the broad interest of the calling party, and to allow both sides an opportunity to "size each other up." Don't expect too much from a first meeting — sometimes the actual business subject may be overtaken by more mundane topics. A series of meetings with a large number of Japanese company representatives is common, as part of the "sizing up" process. Business negotiations may proceed slowly, as the Japanese side may prefer to avoid an agreement rather than being criticized later for making a mistake.

While many Japanese business executives speak some English, a skilled and well-briefed interpreter, while expensive, is essential to prevent communication problems. A good interpreter is worth the extra money. Though some U.S. firms do business in Japan without a signed contract, written contracts between U.S. and Japanese firms have become a universally accepted practice in Japan. They satisfy tax, customs and other legal requirements. Japanese companies prefer short, general contracts, while U.S. companies prefer to spell out rights and obligations in detail. A contract should be viewed as part of a greater effort to create an understanding of mutual obligations and expectations, rather than simply a tool in case of a lawsuit.

Electronic Commerce

[Return to top](#)

The value of the Japanese e-commerce market surpassed 100 trillion yen (approximately 912 billion USD) in 2004, according to a recent survey by the Ministry of Economy, Trade and Industry (METI). Regarding the B-to-B/B-to-C breakdown of the total, the B-to-B market size was \$964 billion (a 33% increase from the previous year) and \$51 billion (a 28% increase from the previous year) for the B-to-C market.

Although leading product categories such as "Automotive" and "Electronics" still make up 57.4% of the total B-to-B market, the share of these two categories decreased recently since the range of products traded online increased, and other categories are expanding. One of the reasons for the increase is the improvement of IT usage in small and medium-sized businesses.

In the B-to-C market, the portion of mobile EC in the total B-to-C market is 17%. Ring-tone service is leading the mobile EC market. Also, the use of discussion boards, blogs and affiliate programs has had a considerable impact on the market. B-to-C market segments are rather fragmented compared to the B-to-B market. Fast-growing segments are books/music, finance, medical/cosmetics/healthcare, home electronics, general services, and travel.

A useful source of further information is the recent "Survey on the Current Status and Market Size of Electronic Commerce for 2004," published jointly by the Ministry of Economy, Trade and Industry; the Next Generation Electronic Commerce Promotion Council of Japan; and NTT Data Institute of Management Consulting, Inc. (June 28, 2005). This survey is available on line at www.meti.go.jp/policy/it_policy/statistics/EC_English2004.pdf.

Trade Promotion and Advertising

[Return to top](#)

Because many products from the United States fit a cultural or industrial environment that may not exist in Japan, educating the Japanese consumer as to the product's purpose, use, features and quality may be necessary. However, not all companies can afford to place ads in Japan's major national daily newspapers or place commercials on Japanese television (all of which accept advertisements or commercials for either national or regional coverage). Regional and local newspapers and television stations, (including newly established cable operators) and sports daily newspapers are less expensive and might make sense for a product with strong distribution in a specific region. A more affordable option for small- to medium-size or new-to-market U.S. companies may be advertising in some of Japan's 2,250 weekly or monthly magazines.

These publications often represent a cost-effective means to reach a specific target consumer — whether gourmet or gardener, cyclist or camper. For industrial and commercial products, Japan's many industrial daily, weekly or monthly newspapers and trade journals may be the most cost-effective advertising option. While Japan has relatively few radio stations (Tokyo, for example, has only four AM and six FM commercial stations), radio advertising potential may be worth investigating.

Much of Japan's broadcast and print media do not deal with advertisers directly but go through Japan's top five advertising agencies: Dentsu, Hakuhodo, Asatsu, Tokyu Agency International and NTT Advertising. In general, "mood" or "image" advertising is generally thought to sell better in Japan. Hard-selling, comparative or combative advertising used to be considered in bad taste and to be counter-productive, although comparative selling is now becoming more mainstream in the tight economy.

Transit advertising should not be overlooked in Japan, where railroads are the primary means of transportation for commuters in major cities, carrying over 21 billion passengers annually. Transit advertisements are located either inside commuter rail cars or buses, or in stations. Ads inside trains and buses include hanging flyers, framed posters, stickers and on some train lines, flat-panel video screens. The major ad companies control ad space, as with the other media. Another common means of introducing, promoting and selling consumer products is to take part in large crowd events, such as regional import bazaars or American product festivals at shopping centers. These events can be a cost-effective means to reach masses of consumers with a product message, as well as providing a means of sampling and selling product to first time customers. Industry specific trade shows, such as for fishing equipment or outdoor products, may include days open to the general public, thus providing another means of reaching a target consumer audience.

Advertising and promotions should be part of a coordinated strategy, usually in cooperation with an advertising and/or PR firm. A great advertising campaign in the right magazine may turn out to be a waste of money if not coordinated with a distribution program whereby consumers can purchase the product being marketed. Advertising/PR firms can also help clients get free or low cost publicity, something the U.S. Commercial Service in Japan can also help provide for companies that participate in events it sponsors.

It is key for U.S. exporters of all kinds of goods and services to get onto the Japanese trade event circuit — not only in Tokyo and Osaka, but in the huge regional economies and industrial centers, where 65 percent of Japan's over 1,000 international conferences, seminars and trade shows take place. These events are being attended more and more by regulatory officials and decision-makers from throughout Asia.

American companies should also consider U.S. Department of Commerce-sponsored trade shows and trade missions, as well as events sponsored by individual U.S. states, or industrial organizations. In some circumstances U.S. Government facilities such as U.S. Consulate multi-purpose rooms in Osaka, Nagoya, Fukuoka and Sapporo can be used for trade promotions, seminars, meetings and receptions. However, commercial use is generally restricted to states, associations, committees, and other uses for U.S. export or tourism promotion, where more than a single American company benefits. Interested companies may inquire directly with the Consulate(s) with the best prospects where single company promotions may be arranged for a nominal fee.

Tough economic times have made price an increasingly important factor for Japanese consumers. Traditionally, many people made their buying decisions based on a product's attributes, quality and brand name, and were willing to pay more for superior quality. However Japanese consumers more than ever are becoming price conscious, and the notion of a "bargain" and considerations of "value for money" have become mainstream. If a comparable imported product or service can be purchased at a relative discount to those produced domestically, consumers will be interested. This has helped prove to many Japanese that affordable U.S. products are in fact of quality similar to, or in some cases higher than, Japanese goods.

This recent ability to compete on price is opening doors for U.S. products, especially during the last few years. However, landed cost is not the only consideration for U.S. firms interested in exporting to Japan, as it is only one part of a total pricing scheme. Distribution mark-ups in Japan often cause imported products to end up being priced at levels far higher than comparable domestic products. Shipping costs, for instance, between the port of Osaka and Tokyo have been shown to be three times higher than shipping costs from the West Coast of the United States to Osaka. A good example is imported US apparel products, where street prices often are three to four times FOB. Regional ports are seeking to compete, particularly with imports from China that are bringing deflation to Japan.

Japanese manufacturers of products such as consumer goods traditionally set prices at each level of the distribution chain and enforce compliance using complicated rebate systems. This kind of "price maintenance" has come under pressure from consumers who are demanding lower prices and from manufacturers who themselves find the rebate system burdensome. As distribution in Japan continues to be deregulated as a result of outside forces or from internal pressures, costs have been coming down and distributors have gained additional flexibility in selecting and purchasing items. In the meantime, U.S. exporters should consider yen fluctuation and internal distribution costs in their product pricing and sales strategies in Japan.

The pricing structure of imported goods in Japan varies according to the types of distribution channels and services that importers or wholesalers provide (e.g., inventory, advertisement costs, packaging costs, financing system, acceptance of unsold/returned goods, etc.) It is a multi-layered system, with established lines of product flow. In light of the recent economic downturn, more and more middlemen are either being eliminated or forced to cut prices and accept lower margins.

As Japanese consumers have become more price-conscious, markups along the various distribution stages have tended to become smaller. Also, there are some retailers who import products directly in order to be able to offer lower retail prices. U.S. suppliers should understand that retailers tend to import smaller quantities and that importers/wholesalers will usually not be interested in representing products that are also directly imported by retailers.

It cannot be emphasized enough: excellent product service and customer support throughout the sales cycle are important in Japan. This includes the establishment of solid business relationships with Japanese partners early in the relationship. Every effort should be made to answer technical questions in detail and ensure delivery dates and other issues regarding shipments of products are clear. Misunderstandings, lack of communication and misinterpretations of language, as well as differing business practices, often lead to problems in these areas.

Arrival times for shipments and the condition they arrive in are critical. Shipments should arrive at the agreed time, and should be well-packed and undamaged upon arrival. Japanese buyers are very concerned with the quality of packing and have used poor packaging as an explanation for market entry problems. Missed deadlines and damaged goods through poor shipping practices can lead to lost business in Japan. Many successful U.S. companies doing business in Japan have established some kind of local presence to handle sales and to provide customer support and service. In some cases, local agents or distributors provide this support.

Protecting Your Intellectual Property

[Return to top](#)

See below, under Chapter 6, [Investment Climate](#).

Due Diligence

[Return to top](#)

A U.S. company resident in Japan is not legally required to use a Japanese attorney for filings, registrations, contracts or other legal documents, which can be prepared by in-house staff, but retaining a competent Japanese attorney (*bengoshi*), patent practitioner (*benrishi*), or other legal professional is a practical necessity. A U.S. company not resident in Japan should also retain competent Japanese counsel. Patents and trademarks must be filed through a Japanese agent, which should be a licensed attorney or patent practitioner.

In recent years, Japanese industry has been shaken by a record number of bankruptcies. Japanese commerce has also witnessed an unprecedented number of mergers and acquisitions. This rapid pace of industrial restructuring has created an increased level of risk for American companies selling into Japan.

The U.S. Embassy in Tokyo continues to see trade dispute cases of all kinds. It has become more common for small- and medium-sized Japanese trading companies to run into payment problems. Importers, wholesalers and distributors without real estate assets may find it more difficult to obtain trade financing in the present environment. Banks in Japan have become less inclined to provide credit to small- and medium-sized enterprises of all types. Larger companies with excessive debt may also experience problems obtaining finance.

As a result, American companies are well advised to perform due diligence procedures and check the bona fides of their Japanese agents and/or customers. A number of commercial agencies provide this type of service. For a list of information providers, please refer to the "Business Service Providers" section of CS Japan's website at www.buyusa.gov/japan/en/bsp.html.

Local Professional Services

[Return to top](#)

CS Japan's website features lists of business service providers in different fields who may be of assistance to U.S. exporters in Japan.

Although these lists are not comprehensive, and inclusion does not constitute an endorsement or recommendation by the U.S. Commercial Service or by the U.S. Government, they are a useful starting point for firms that need professional services in Japan. Please click on the following links and you will be taken straight to the list of business service providers that are of interest to you:

- [Accounting and Auditing](#)
- [Advertising](#)
- [Business Administration Services](#)
- [Business Consulting](#)
- [Computer and Internet Services](#)
- [Education and Training Services](#)
- [Engineering Services](#)
- [Hotels and Meeting Facilities](#)
- [Human Resources](#)
- [Insurance Services](#)
- [Legal Services](#)
- [Market Research](#)
- [Marketing, Public Relations and Sales](#)
- [Patent and Trademark Law Services](#)
- [Real Estate Services](#)
- [Relocation services](#)
- [Restaurants and Catering](#)
- [Security and Personal Safety](#)
- [Trade Show and Exhibition Services](#)
- [Translation and Interpretation](#)
- [Transportation, Freight Forwarder and Storage Services](#)
- [Other Business Services](#)

or visit our web site at www.buyusa.gov/japan/en/bsp.html.

Web Resources

[Return to top](#)

Information on investing in Japan, establishing an office, and other programs for foreign businesses:

Japanese External Trade Organization (JETRO)
www.jetro.go.jp/en/invest/setting_up/

Information on business service providers in Japan:

U.S. Commercial Service, American Embassy, Tokyo
www.buyusa.gov/japan/en/bsp.html

Information on Japanese government procurement:

www.jetro.go.jp/en/matching/procurement

Office for Government Procurement Challenge System (CHANS)
Coordination Bureau
Cabinet Office

www5.cao.go.jp/access/english/chans_main_e.html

E-commerce marketplaces:

Marketplace name: TWX21 (Hitachi)
Products: MRO (Maintenance, Repair, Operations), *etc.*
www.twx-21.hitachi.ne.jp/e_index.htm

Marketplace name: SC Grainger (Japanese only)
Products: MRO (Maintenance, Repair, Operations)
www.monotaro.com/

Marketplace name: Alpha Purchase (Japanese only)
Products: MRO (Maintenance, Repair, Operations), *etc.*
www.alphapurchase.co.jp/homepage/index.html

[Return to table of contents](#)

U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>.

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.

[Return to table of contents](#)



Doing Business in Japan: A Country Commercial Guide for U.S. Companies

Chapter 4: Leading Sectors for U.S. Export and Investment

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Complete U.S. government foreign trade statistics (exports and imports by country and product) are available online from the U.S. Department of Commerce, U.S. Census Bureau at www.census.gov/foreign-trade/statistics/country/index.html. A table showing U.S. exports to Japan in 2005 by product/commodity group is available on CS Japan's web site at www.buyusa.gov/japan/en/mom.html (under "Market Overview").

Japanese foreign trade statistics (imports and exports) are available online from the Japan External Trade Organization (JETRO) at www.jetro.go.jp/en/stats/statistics/.

[Agricultural Sector](#)

Commercial Sectors

- [Medical Equipment \(MED\)](#)
- [Biotechnology \(BTC\)](#)
- [Electronic Components \(ELC\)](#)
- [Computer Software \(CSF\)](#)
- [Pharmaceuticals \(DRG\)](#)
- [Travel & Tourism \(TRA\)](#)
- [Aircraft / Aircraft Parts \(AIR\)](#)
- [New Energy Power Generation \(POL/ELP\)](#)
- [Dietary Supplements / Health Food \(FOD\)](#)
- [Lifestyle Market \(HCG\)](#)
- [Soil Remediation / Engineering Services \(ACE\)](#)
- [Education & Training Services \(EDU\)](#)
- [Telecommunications Equipment \(TEL\)](#)
- [Building Products \(BLD\)](#)
- [Safety & Security Equipment \(SEC\)](#)

The United States remains Japan's top supplier of farm products, with a 22 percent market share in 2004, despite the beef import ban. However, China, Latin America, Australia and Russia have grown as strong competitors for the United States. U.S. farm exports to Japan decreased slightly in CY 2004 to \$10 billion. The decline is largely due to the loss of the beef market following the discovery of a case of BSE in the United States. On the other hand, pork and processed foods showed good growth and corn, soybeans and wheat exports remained strong. At 40%, the Japanese food self-sufficiency rate is the lowest of all industrialized countries, compared to the U.S. rate of 122% and the Japanese spend a very high percentage of their income on food (almost 20% compared to 10% in the United States). In 2004, the value of the Japanese consumer food and beverage market was \$625 billion. For complete agricultural statistics, please visit the web site of the U.S. Department of Agriculture's Foreign Agricultural Service at www.fas.usda.gov/ustrade.

Opportunities exist for a range of agricultural products, in particular, processed and consumer ready food products. For U.S. companies to tap into this dynamic market, there are several key factors affecting food purchase trends that they must be aware of. These factors are a rapidly aging population, diversification of eating habits, emphasis on high quality, increasing demand for convenience, food safety concerns, and economic recession. Exporters interested in the Japanese market should make note that three of the biggest annual food related trade shows in Japan and all of Asia are: Foodex Japan, International Food Ingredients & Additives Exhibition and Conference (IFIA) Japan, and Health Ingredients (HI) Japan.

Japan's population is aging faster than any other country in the world. According to current forecasts, by 2010 more than 25% of the population will be over 65 years of age. Coupled with the fact that Japanese life expectancy is the highest in the world, there is a strong demand for "healthy foods". Such concepts as "functional foods" are well understood, and many products certified by the Ministry of Health, Labor and Welfare as FOSHU (Food for Specific Health Use) are commonly consumed. Food products that are seen to have some health benefit, for example lowering cholesterol or containing a high level of antioxidants, have an advantage in Japan.

Since the 1960's, the Japanese diet has become dramatically westernized. In 1960, the source of per capita protein consumption was 32% from rice, 24% from seafood, 5% from meat and 3% from dairy products. In 2001, the percentages became 12%, 23%, 16% and 10%. Rice and tofu-based products have been replaced by meat and dairy as the main source of protein.

In addition to this move towards westernization, food trends have recently become more complex. Various ethnic foods are also becoming popular and are often combined with Japanese cuisine creating "fusion" foods. Another aspect of diversification is the trend of "individual eating", or convenience foods. Because of the busy, fast paced lifestyle of modern Japanese, it has become less common for all family members to eat together. "Individualization" of eating makes convenience an essential factor. Microwave (or semi- prepared) food and Home Meal Replacement (HMR) cuisine has become an indispensable part of life and are sold in restaurants and convenience stores such as 7-Eleven and Lawson's that are now found all over Japanese cities.

Economic stagnation and declining income have made people more price-conscious than in the past, however quality continues to be the most crucial factor in food

purchasing decisions. Food safety has also become an important consideration for most Japanese consumers, who are more sensitive to perceived risk than the average American consumer.

The retail sector remains the focus of U.S. investment in Japan's food industry. Wal-Mart now owns 54% of Seiyu, the 5th largest Japanese supermarket, and plans to acquire a 66.7% equity stake in the struggling Japanese retailer by 2007. U.S. investment in Japan's agricultural sector is limited to a few large-scale ventures in the livestock and grain sectors.

Web Resources

[Return to top](#)

Statistics on U.S. agricultural exports www.fas.usda.gov/ustrade

USDA/FAS Reports www.fas.usda.gov/scripts/attacherep/default.asp

Food-related trade shows in Japan Foodex Japan 2005
www.imexmgt.com/index.cfm?fuseaction=calendar.factsheet&showid=146

International Food Ingredients and Additives Exhibition and Conference Japan
www.eikrause.com/ifiainapan/

Health Ingredients Japan www.hijapan.info/en/

Agricultural Trade Offices in Japan www.atojapan.org/

Japanese Ministry of Agriculture, Forestry, and Fisheries www.maff.go.jp/eindex.html

Japanese Ministry of Health, Labor, and Welfare www.mhlw.go.jp/english/index.html

Medical Equipment (MED)

[Return to top](#)

Overview

[Return to top](#)

(millions of U.S. \$)	2003	2004	2005 (estimated)
Total Market Size	18,144	19,069	18,270
Total Local Production	13,860	14,207	13,670
Total Exports	3,886	3,983	3,910
Total Imports	8,170	8,845	8,510
Imports from the U.S.	5,023	5,140	4,795

(Note: The figures for 2003 and 2004 are the latest official figures; statistics for 2005 are unofficial estimates)

The Japanese medical equipment and supplies sector ranks second in the world and continues to be an extremely successful market for American firms, representing one of

the few sectors where the United States has consistently achieved trade surpluses with Japan. The value of Japan's medical device sector has been approximately \$18 billion for the last few years. Traditionally, imports account for approximately 40 percent of this figure, with American firms supplying approximately 60 percent of all imported products. Total U.S. sales in this sector, including local production by American companies, are valued at more than \$6 billion annually.

Although, U.S. firms have historically done well, one problematic issue for the sector persists: the speed of the regulatory review process. The establishment of the Pharmaceutical and Medical Devices Agency (PMDA) in 2004 and the implementation of the major Pharmaceutical Affairs Law (PAL) changes were designed to improve and — hopefully — accelerate Japan's review process. PMDA, however, has encountered difficulties in achieving faster reviews. A revised PAL, which went into effect in April 2005, in fact, increased the burden on applicants both in financial and practical terms due to its complicated regulations. Even large-scale companies are experiencing difficulties meeting the new requirements.

In addition, the Japanese Government continues to focus on reducing medical device prices to counterbalance the increasing healthcare expenditures resulting from a rapidly aging society. The Japanese government contends that excessive prices are paid for medical devices in Japan in comparison to other world markets. To cope with this situation, the Japanese government instituted in 2002 a "Foreign Reference Pricing" (FRP) system to cut device prices by linking them to lower prices in overseas markets. The result from these price revisions (in April 2002 and April 2004) has been significantly reduced prices on products supplied by U.S. firms.

Unfortunately, the upcoming price revision in April 2006 will continue this trend. The government and ruling coalition parties agreed in December 2005 to reduce medical service fees by 3.16% for JFY 2006 — the largest cut ever made. Of the total reduction, 1.36% will come from doctor's fees (which had been previously cut by 1.3% in 2002) and the remaining 1.80% will come from regular drugs (1.60%) and medical devices (0.20%). Overall, Japan's market for medical devices is expected to exhibit flat to negative growth in 2006.

Best Products/Services

[Return to top](#)

Although the business environment is not positive, American firms will continue to see sales prospects in the more technologically sophisticated product categories, especially where there is a lack of local competition. Those products include pacemakers, advanced interventional cardiology products, artificial implants, catheters and stents. Other areas of projected strong demand include software and other products used in medical information systems and telemedicine.

Opportunities

[Return to top](#)

Event:	The International Modern Hospital Show 2006 (IMHS2006)
Dates:	July 12-14, 2006
Venue:	Tokyo Big Sight
URL:	http://www.noma.or.jp/hs/index-e.html
Products:	Healthcare equipment, medical devices and materials, nursing care related devices and health care information systems.

Event: HOSPEX Japan 2006
 Dates: November 15-17, 2006
 Venue: Tokyo Big Sight
 URL: www.jma.or.jp/HOSPEX/en/index.html
 Products: Hospital and welfare facilities (for operation divisions, central material divisions, wards, ICUs and CCUs), medical treatment equipment (for testing, treatment, and rehabilitation, medical information systems (for hospital management and advanced treatment support), medical related services (pharmaceuticals and medical articles distribution systems, sterilization systems, and hospital catering services), healthcare and welfare service support (facilities and equipment for institute care support, information systems, and nursing support services).

Resources

[Return to top](#)

CS Japan Contact: Mr. Hiroyuki Hanawa (Tokyo) Hiroyuki.Hanawa@mail.doc.gov

Ministry of Health, Labor and Welfare (MHLW)
 Pharmaceutical and Medical Device Agency (PMDA)
 Advanced Medical Technology Association (AdvaMed)
 The American Chamber of Commerce in Japan (ACCJ),
 Medical Devices and Diagnostics Subcommittee
 Japan Federation of Medical Device Associations
 (JFMDA)

www.mhlw.go.jp/
www.pmda.go.jp/
www.advamed.org/
www.accjmedtech.com/
www.jfmda.gr.jp/

Biotechnology (BTC)

[Return to top](#)

Overview

[Return to top](#)

(millions of U.S. \$)	2003	2004	2005 (estimated)
Total Market Size	14,290	15,191	15,987
Total Local Production	n/a	n/a	n/a
Total Exports	n/a	n/a	n/a
Total Imports	n/a	n/a	n/a
Imports from the U.S.	n/a	n/a	n/a

(Note: The above statistics are unofficial estimates. Data on local production, exports and imports is currently unavailable.)

Although Japan still lags behind the United States and much of Europe in the development of its biotechnology sector, it is making considerable efforts to turn this sector into a major industry. Its efforts are reflected in the growing number of Japanese biotech venture companies, which increased from 387 in 2003 to 464 in 2004. Increased cooperation between the Japanese public and private sectors and academic institutions has also lead to the development of a vibrant industry. The market size of the Japanese biotechnology industry in 2005 was approximately \$16 billion, a 2.2 percent increase in growth from the previous year.

Best Products/Services

[Return to top](#)

Key market segments include pharmaceuticals and medical diagnostics, functional food, agriculture, bio-informatics and equipment for biotech research (DNA chips and reagents). Among pharmaceuticals, the antibody therapeutics sector shows high growth potential. It has developed into \$500 million market in 2005, which is a 22% increase from the previous year. The Japanese pharmaceutical, food, agricultural and IT sectors continue to expand their biotech related activities. These firms are increasingly seeking opportunities to form strategic partnerships, research collaborations, and licensing arrangements with U.S. companies and research institutes.

Opportunities

[Return to top](#)

Event: BioJapan 2006 World Business Forum
Dates: September 13-15, 2006
Venue: Osaka International Convention Center (Grand Cube Osaka)
URL: expo.nikkeibp.co.jp/biojapan/2006/index.html

Event: International Bio Expo Japan
Dates: May 17-19, 2006
Venue: Tokyo Big Sight
URL: www.bio-expo.jp

Event: Advance in Drug Discovery and Development
Dates: April 24-26, 2006
Venue: Tower Hall Funabori
URL: www.drugdisc.com/asiapacific

Resources

[Return to top](#)

CS Japan Contact: Ms. Tamami Imai (Tokyo) Tamami.Imai@mail.doc.gov

Japan Bio-industry Association (JBA) www.jba.or.jp

Kinki Bio-industry Development Organization www.kinkibio.com

Electronic Components (ELC)

[Return to top](#)

Overview

[Return to top](#)

(millions of U.S. \$)	2003	2004	2005 Estimated
Total Market Size	44,633	43,861	34,660
Total Local Production	90,024	89,201	83,911
Total Exports	85,002	86,826	87,822
Total Imports	39,611	41,486	38,571
Imports from the U.S.	18,800	18,850	18,500

(Note: The above statistics are unofficial CS estimates)

Japan's electronic components market is the world's second largest and, despite fierce competition from Japanese and other companies, it can still be considered as a leading sector for U.S. export opportunities. According to the Japan Electronics and Information Technology Association (JEITA), 2005 was a year of adjustment: domestic production of electronic components and devices is estimated to decrease by 5.9%. This follows a year where, due to popular events such as the Athens Olympic Games, demand for televisions, DVD recorders, digital cameras, and 3G cellular phones grew significantly. With another popular global sports event looming in 2006 — the World Cup — demand is again expected to increase dramatically. The size and rapid growth of the appliances market make it a promising sector for U.S. electronic component exporters.

Best Products/Services

[Return to top](#)

Liquid crystal devices, plasma display devices and embedded software for digital home appliances.

Opportunities

[Return to top](#)

Internecon 2006

www.nepcon.jp/english/

Date: January 18-20, 2006

Venue: Tokyo Big Sight

Organizer: Reed Exhibition Japan

CEATEC Japan 2005

www.ceatec.com/en/2005/

Date: October 3-7, 2006

Venue: Tokyo Big Sight

Organizers: The Japan Electronics and Information Technology Industries Association
Communications and Information Network Association of Japan
Japan Personal Computer Software Association

FPD International

expo.nikkeibp.co.jp/fpd/english/

Date: October 18-20, 2006

Venue: Pacifico Yokohama

Organizers: Nikkei Business Publications
SEMI

Semicon Japan

wps2a.semi.org/wps/portal

Date: December 6-8, 2006

Venue: Tokyo Big Sight

Organizer: SEMI

Resources

[Return to top](#)

CS Japan Contact: Mr. Toshihiro Matsuda (Tokyo) Toshihiro.Matsuda@mail.doc.gov

The Japan Electronics and Information Technology Industries Association (JEITA)
www.jeita.or.jp/english/index.htm

Japan Electronic Product Importers Association (JEPIA)

www.jepia.gr.jp/eindex.html)

Distributors Association of Foreign Semiconductors (DAFS)

www.dafs.or.jp/

Computer Software (CSF)

[Return to top](#)

Overview

[Return to top](#)

(millions of U.S. \$)	2003	2004	2005 (Estimated)
Total Market Size	129,443	131,773	134,550
Total Local Production	126,449	128,258	130,300
Total Exports	84	292	550
Total Imports	2,633	3,326	4,000
Imports from the U.S.	2,364	3,003	3,200

(Note: The above statistics are unofficial CS estimates.)

Japan's software business has been growing steadily as Japan's investment in IT has shifted from hardware and network infrastructure to software and services. By industry sector, manufacturing, finance, information services, and government procurement are currently the major buying segments. In fact, these four segments together currently account for over 60% of total market revenue. Given the rise in concerns about network security and information leaks, Japanese businesses are now more interested in ICT security — an area where U.S. companies supply highly advanced products.

Best Prospects/Services

[Return to top](#)

Information security software, embedded software for consumer electronics and other software products that utilize improved hardware and network infrastructure.

Opportunities

[Return to top](#)

For U.S. exporters, the Japanese software market is attractive in terms of size and demand for quality imports. This trend should continue as the Japanese software industry historically struggles with increasing development costs and a lack of skilled engineers. There are three key elements to launching software products into the Japanese market: (1) localization — localization includes Japanese translation, testing, and customization. Software suppliers must always consider Japanese business customs and culture to meet local client needs; (2) support capability — support in the Japanese language is critical; and (3) product quality — quality control is one of the most important considerations for Japanese users.

Exhibition: WPC Expo 2006

expo.nikkeibp.co.jp/wpc/en/

Date: October 2006

Venue: Tokyo Big Sight

Organizer: Nikkei Business Publication, Inc.

Resources

[Return to top](#)

CS Japan Contact: Mr. Toshihiro Matsuda (Tokyo) Toshihiro.Matsuda@mail.doc.gov

Japan Personal Computer Software Association (JPSA)
www.jpsa.or.jp/english/index_e.html

Pharmaceuticals (DRG)

[Return to top](#)

Overview

[Return to top](#)

(millions of U.S. \$)	2003	2004	2005 (estimated)
Total Market Size	67,630	67,518	63,325
Total Local Production	60,409	60,419	56,354
Total Exports	926	1,176	1,154
Total Imports	8,146	8,275	8,125
Imports from the U.S.	1,622	1,139	1,118

(Note: The figures for 2003 and 2004 are the latest official figures; statistics for 2005 are unofficial estimates.)

Japan continues to be the world's second largest consumer of pharmaceuticals and the largest international market for American drug firms. Each year, sales of prescription drugs in Japan total about \$60 billion. Japan's imports of pharmaceuticals account for almost 10 percent of the total market, yet would be closer to 45 percent if direct imports, local production by foreign firms and compounds licensed to Japanese manufacturers were included. Allowing for that, American pharmaceutical firms have actually achieved a market share approaching 20 percent.

Although Japan is the second largest pharmaceutical market, Japan currently lags behind the United States, EU and many Asian markets in terms of access to new medicines. Of the 99 leading global medicines, only 60 are available in Japan. To cope with this situation, Japan released in 2002 a milestone policy paper — known as "the Vision" — to promote an innovative pharmaceutical industry for Japan. Under "the Vision," action plans to promote innovation — comprising a wide range of policies concerning the R&D environment, regulatory system, and insurance reimbursements — were presented. However, Japan is facing difficulties implementing these measures — in particular those involving pricing policies that reward innovation — due to the current short-term focus on cost-containment.

With Japan's rapidly aging population, it has become difficult for the Japanese government to curb the growth of the nation's medical expenditures. Drugs, however, are not considered as a contributing factor to these rising costs as drug spending has decreased from 30% to approximately 20% of total healthcare expenditures in Japan. While Japan recognizes the need for comprehensive fee schedule reforms in order to improve the quality and efficiency of health services, drugs continue to be targeted for short-term price cutting fixes to make up for immediate budget short falls. For the April 2006 revision, the government and ruling coalition parties agreed in December 2005 to reduce medical service fees by 3.16% for JFY 2006 - the largest cut ever made. Of the

total reduction, 1.36% will come from doctor's fees (which had been previously cut by 1.3% in 2002) and the remaining 1.80% will come from regular drugs (1.60%) and medical devices (0.20%). Overall, Japan's market for pharmaceuticals is expected to exhibit flat to negative growth in 2006.

Best Products/Services

[Return to top](#)

Japan's aging population is generating increased demand for pharmaceutical treatments for such chronic illnesses as cardiovascular problems, digestive problems, diabetes, and cancer, as well as for diagnostic reagents, etc. It is also expected that the Japanese government will further promote the use of generic drugs because Japan's aging population is creating a budgetary crisis in the healthcare system.

Opportunities

[Return to top](#)

Event: Japan Drug Store Show 2006
Dates: February 10-12, 2005
Venue: Makuhari Messe
URL: www.jacds.gr.jp/
Products: OTC (medication), medicine, cosmetics, cosmetics miscellaneous goods, functional food stuffs, healthcare, beauty care, supplements, prescription systems and care products, food and drink, home care, life enjoyment products, store facilities, and publishing.

Event: CPhI Japan 2006
Dates: April 24-26, 2006
Venue: Tokyo Big Sight
URL: www.cphijapan.com
Products: Active pharmaceutical ingredients, contract manufacturing, biotechnologies, additives, fine chemicals, and intermediates.

Event: INTERPHEX JAPAN
Dates: May 17-19, 2006
Venue: Tokyo Big Sight
URL: www.interphex.jp
Products: Raw materials, additives, materials processing machinery and equipment.

Resources

[Return to top](#)

CS Japan Contact: Mr. Hiroyuki Hanawa (Tokyo) Hiroyuki.Hanawa@mail.doc.gov

Ministry of Health, Labor and Welfare (MHLW)	www.mhlw.go.jp/
Pharmaceutical and Medical Device Agency (PMDA)	www.pmda.go.jp/
Pharmaceutical Research and Manufacturers of America	www.phrma-jp.org/
The Japan Pharmaceutical Manufacturers Association	www.jpma.or.jp/

Travel and Tourism (TRA)

[Return to top](#)

Overview[Return to top](#)

<i>(millions of U.S. \$)</i>	2000	2001	2002	2003	2004
Total outbound market	\$42,112	\$43,796	\$42,591	\$44,150	\$47,422
Outbound to the U.S.	\$14,011	\$11,705	\$10,922	\$11,000	\$13,094
<i>(millions of people)</i>	2000	2001	2002	2003	2004
Number of outbound travelers	17.8	16.2	16.6	13.3	16.8
Number of outbound travelers to U.S.	5.06	4.10	3.63	3.17	3.75

(Note: Data for 2005 is not available. The above statistics are unofficial estimates. Sources: U.S. Department of Commerce, Office of Travel and Tourism Industries, Japan Tourism Marketing Co.)

Japan has for many years been the largest overseas travel and tourism market for the United States. However, immediately following the September 2001 terrorist attacks on the World Trade Center in New York, Japanese outbound travel dropped considerably, especially to the United States. Since 2001, the increase in Japanese outbound travelers to the United States has been slow compared to the Japanese traveler's return to other countries, but even so, Japanese visitors to the United States still accounted for almost two-thirds of all Asian visitors in 2004. Regarding spending, Japan is the number one market for the United States regarding travel and passenger fare receipts, followed by the United Kingdom and Canada.

The United States is one of the most popular destinations for Japanese travelers, many of whom are repeat visitors. Over 70 percent of the repeat travelers visited the U.S. mainland and Hawaii last year. Other competitive long-haul destinations for Japanese tourists are European countries, especially for first-time travelers. Short-haul destinations such as South Korea and China remain very competitive, and received over one quarter of all outbound Japanese travelers. A majority of Japanese tourists throughout the 1990s were females, typically groups of single working women and "mother & daughter" trips. However, the male market is growing, and by 2003 had overtaken the female market. Males in their 30s and 40s are now the majority of Japanese travelers to the United States.

Package tour/group trips are still the most popular and convenient way for Japanese travelers to make their arrangements. However, individually arranged travel is gaining in popularity, mainly due to the many options now available on the Internet.

The U.S. Department of Commerce (DOC) announced on May 25, 2005, that beginning in 2006, the United States would begin marketing itself as a destination to Japanese travelers. The goals of the campaign are to: 1) increase awareness of the United States as a vacation destination; 2) increase the positive perception of the United States as a travel destination; 3) increase interest and future intent to visit the United States, and to 4) increase economic benefits from visitation. The DOC campaign will be a combination of media promotion and public relation activities/events. The TV commercials will use

Hollywood movie titles and footage to promote the United States. The tag line is: "You saw the film, now visit the set!"

In conjunction with the DOC media campaign, the Commercial Service (CS) of the U.S. Embassy Tokyo is launching its own campaign using various PR activities/events to leverage and complement the DOC effort, in partnership with private sector organizations.

Best Products/Services

[Return to top](#)

Niche market travel is increasingly popular, especially in the following areas: (1) viewing nature and scenic attractions; (2) shopping for local products, rather than brand names; (3) visiting sites and attractions in historic and cultural areas; (4) gourmet/cuisine sampling; (5) healing and relaxation trips; and (6) visits to art galleries and museums.

Opportunities

[Return to top](#)

Event: TIA SeeAmerica Media Market Place and Educational Seminar
Dates: September 19 – 25, 2006
Venue: in Tokyo, Japan (venues TBD)
URL: www.tia.org/marketing/seeamerica_week_japan.html

Event: U.S. Pavilion at JATA World Travel Fair
Dates: September 22 – 24, 2006
Venue: Tokyo Big Sight, Tokyo, Japan
URL: www.jata-wtf.com/

Event: Japan Visit USA Committee/TIA Workshop and Seminar
Dates: November 8 (Osaka) and 9 (Nagoya), 2006
Venue: in Osaka and Nagoya, Japan (venues TBD)
URL: www.japan-usa.co.jp/e-home.html

Resources

[Return to top](#)

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Japan Visit USA Committee
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Aircraft / Aircraft Parts (AIR)

[Return to top](#)

Overview

[Return to top](#)

(millions of U.S. \$)	2003	2004	2005 (estimated)
Total Market Size	13,056	13,528	13,324
Total Local Production	8,328	8,573	9,440
Total Exports	2,311	2,089	3,331
Total Imports	7,039	7,044	7,215
Imports from the U.S.	6,054	6,199	6,277

(Note: The above statistics are unofficial estimates, based on Ministry of Finance and Society of Japanese Aerospace Companies (SJAC))

Japan continues to offer a lucrative market for imported aircraft and aircraft parts, including aircraft engines. Long-term relationships, spanning over the past 50 years, between U.S. aircraft and aircraft parts makers, domestic manufacturers and trading firms successfully contributed to the establishment of the U.S.'s overwhelming presence in the Japanese market.

In the civilian aircraft market, the recent decision by Japan's two largest domestic carriers, Japan Airlines (JAL) and All Nippon Airways (ANA), to select Boeing aircraft models has virtually eliminated commercial aircraft orders from Airbus at the present time.

The annual production of Japanese aircraft manufacturing industry amounts to approximately \$9 billion. The domestic aircraft industry is heavily geared towards meeting the demand of the Japanese Defense Agency (JDA) and supplying aircraft frames, wings and other aircraft parts and components to international aircraft manufacturers, such as Boeing, Airbus, Embraer and Bombardier. Of the total domestic production in 2004, defense orders accounted for 62 percent and exports, 24 percent.

International joint development projects, including the Boeing 787 project, and the domestic development of military and commercial aircraft and engines concurrently underway, are setting the stage for further growth in the Japanese aircraft industry. U.S. suppliers of market-proven aircraft and aircraft parts are in a good position for tapping expanding opportunities in the coming decade. For new-to-entry suppliers, it is advisable to seek partnerships with trading firms knowledgeable in aircraft industry networks.

Japan is currently experiencing a boom in airport infrastructure development: the Central Japan International Airport (Centrair) opened in Nagoya in February 2005, while the current Nagoya Airport has been transferred to a commuter flight base; the Kobe and Kita Kyushu Airports will be completed in 2006; and the Haneda, Narita and Kansai Airports are scheduled for further expansion. These developments are expected to create vibrant opportunities for regional airlines and corporate jet operations.

Best Prospects/Services

[Return to top](#)

Commercial aircraft and aircraft engines, business jets, helicopters, aircraft parts and supplies, avionics

Opportunities

[Return to top](#)

The next major aerospace show in Japan is "Japan Aerospace 2008" on October 1-5, 2008, at Pacifico Yokohama Convention Center, Yokohama Japan, which is organized by the Society of Japanese Aerospace Companies (SJAC).

Resources

[Return to top](#)

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Society of Japanese Aerospace Companies www.sjac.or.jp/

New Energy Power Generation (POL/ELP)

[Return to top](#)

Overview

[Return to top](#)

(millions of U.S. \$)	2003	2004	2005 (estimated)
Total Market Size	2,229	2,340	2,500
Total Local Production	2,476	2,600	2,800
Total Exports	494	600	800
Total Imports	247	340	500
Imports from the U.S.	60	70	100

(Note: The above statistics are unofficial US&FCS estimates.)

New Energy Power Generation refers to wind, photovoltaic, micro hydropower, waste and biomass power generation as well as fuel cells. On June 4, 2002, Japan ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change. Based on the Kyoto Protocol, Japan commits to reducing its 2010 greenhouse gas emissions to a level six percent lower than its 1990 emissions level. To secure this reduction in greenhouse gases, the Government of Japan (GOJ) has set an ambitious policy goal targeting a 10-fold increase by 2010 of new energy power generation over 1999 levels. To achieve this ambitious goal, the GOJ has provided industrial subsidies for new energy development and enacted the RPS (Renewable Portfolio Standards) Law in June 2002. The RPS law requires Japanese electric utilities to use renewable energy sources for a certain percentage of their sales. The RPS mandate has generated a flurry of activity by utilities to ensure compliance with this new policy target.

Best Products/Services

[Return to top](#)

Best products include products and services related to wind power, photovoltaic power, biomass, and fuel cells.

Opportunities

[Return to top](#)

Private entities or municipal governments that are not covered by the World Trade Organization (WTO)'s government procurement agreements conduct many new energy power generation projects. Therefore, most of these projects are not open to the public for bidding. However, by teaming up with Japanese partners and through continued efforts, U.S. and European companies will be able to increase their share in this market.

Resources

[Return to top](#)

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Useful Websites:

New Energy and Industrial Technology Development Organization (NEDO)
www.nedo.go.jp/english/activities/newenergy/index.html

Dietary Supplements / Health Food (FOD)

[Return to top](#)

Overview

[Return to top](#)

(millions of U.S. \$)	2003	2004	2005 (estimated)
Total Market Size	9,565	10,696	11,682
Total Local Production	n/a	n/a	n/a
Total Exports	n/a	n/a	n/a
Total Imports	n/a	n/a	n/a
Imports from the U.S.	n/a	n/a	n/a

[Note: The figures quoted above were published in the Japanese trade journal, Kenkō Sangyō Shinbun (“Health Industry News”). As there is no official definition for dietary supplements in Japan — it is often considered as conventional food — data on local production, exports, and imports are unavailable.]

Japan is the second largest market for dietary supplements in the world, after the United States. The current size of the Japanese market for nutritional supplements and health foods is about \$11.7 billion annually. It is a growing market, due to a Japan's rapidly aging population, a rise in health consciousness amongst Japanese consumers and the healthcare system reform plan implemented by the government.

With the burden placed on Japan's healthcare system by an aging population, the Japanese government is attempting to hold down healthcare costs as much as possible. They are therefore emphasizing the importance of preventing chronic, quality-of-life impairing diseases such as diabetes and cardiovascular disease. Nutritional supplements can play an important role in this goal and, as a result, are gaining popularity amongst Japanese consumers.

Approximately two-thirds of the nutritional items sold in Japan are done so through non-traditional sales channels such as direct marketing and mail order. This dependence on non-traditional marketing techniques is partially the result of a loophole in Japan's

generally restrictive regulatory environment. Many supplements sold in the United States are not approved for sale in Japan. However, individual imports via mail or as part of personal baggage when returning from overseas are allowed. The rapid expansion of internet use in Japan is also contributing to the increased sales of these products.

Best Products/Services

[Return to top](#)

The most popular nutritional supplements are the so-called "basic supplements", which are vitamins and minerals such as vitamin A, B, C, E, or multi-vitamins. These basic items are sold widely in stores, through door-to-door sales, via catalog sales and over the internet. In addition to these basic supplements, there are many trendy products, whose popularity is driven by the media, such as TV programs featuring health-related topics. Currently, the hottest items are Co-Enzyme Q10 and Alpha Lipoic Acid.

Other best prospects for the coming years are nutritional supplements and health foods that are effective in the prevention of heart disease, diabetes, stroke and high blood pressure. Nutritional supplements targeting anti-aging and beauty-care also have good potential.

Opportunities

[Return to top](#)

- | | |
|--------|--|
| Event: | Tokyo Health Industry Show |
| Dates: | March 22-24, 2006 |
| Venue: | Tokyo Big Sight |
| URL: | www.health-industry-news.co.jp/english/exhibit/health.phtml |
| | |
| Event: | Natural Products Expo Japan |
| Dates: | September 21-23, 2006 |
| Venue: | Tokyo Big Sight |
| URL: | www.NaturalProductsExpo.jp |
| | |
| Event: | Japan Drugstore Show |
| Dates: | February 10-12, 2006 |
| Venue: | Makuhari Messe (Nippon Convention Center) International Exhibition Hall |
| URL: | www.drugstoreshow.jp/english.html |
| | |
| Event: | Health Ingredients Japan |
| Dates: | October 4-6, 2006 |
| Venue: | Tokyo Big Sight |
| URL: | www.hijapan.info |

Resources

[Return to top](#)

- | | |
|---|--|
| CS Japan Contact: Ms. Tamami Imai (Tokyo) | Tamami.Imai@mail.doc.gov |
| NNFA Japan | www.nnfajapan.com |
| ACCJ Dietary Supplement Subcommittee | www.accj.or.jp/ |
| GOJ Ministry of Health, Labor and Welfare (MHLW) — information on food imports: | |

Overview

(Millions of U.S.\$)	2003	2004	2005 (estimated)
Total Market Size	31,500	35,200	36,000
Total Local Production	28,200	30,900	31,500
Total Exports	2,100	2,300	2,350
Total Imports	5,400	6,600	6,750
Imports from the U.S.	540	590	600

(Note: There are no official statistics on the lifestyle market. The figures above are estimates by industry experts.)

Lifestyle stores are attracting the attention of Japanese consumers, who are increasingly interested in creating their own living space by means of lifestyle products. Though the term “lifestyle products” may sound broad and hard to grasp, lifestyle products are grouped into five identifiable sub-sectors: housewares; home appliances; furniture & home furnishings; interior fabrics; and other. The market is estimated at \$36 billion in 2005; the home appliance sector accounted for the largest share at 50 percent, followed by furniture and home furnishings at 25 percent, housewares at 20 percent, interior textiles at three percent, and other at two percent, according to industry experts. Industry experts expect that the total market size will increase in 2006 as the Japanese economy improves.

According to the 2000 National Census, Japan had 47 million households with a total population of 127 million. Young consumers are sensitive to home fashion, wishing to assert their distinctive lifestyles. Middle-aged consumers are strongly interested in keeping up with their health and wellness under severe time constraints. Japan’s seniors today lead very active lifestyles, greatly different from seniors of the past. And overall Japanese consumers are spending more and more time at home, and the concept of nesting or staying home and relaxing is gaining broad social acceptance.

The growth of the lifestyle market is demonstrated by the opening of new stores and favorable sales reports from lifestyle stores. For example, Mitsukoshi Department Store started operating LACHIC in Nagoya in spring 2005. It houses about 170 specialty stores featuring lifestyle products. Also, BALS Corporation, which operates popular FranFranc lifestyle stores successfully, added an upscale lifestyle store AGITO in the Roppongi Hills shopping complex in Tokyo. In addition, mass merchants such as JUSCO of the AEON Group and Shimachu Home Center are strengthening home fashion items to attract consumers with different lifestyles.

It is important to note that the product lines in these stores are becoming increasingly global, while Japanese consumers’ lifestyles are growing more and more diversified. Although Japanese living standards have greatly improved, Japanese homes in general still lack color and creative design compared to homes in the United States and Europe,

presenting an excellent opportunity for U.S. exporters to contribute to the upgrading of Japanese homes.

Best Products/Services

[Return to top](#)

The concept of LOHAS ("Lifestyles of Health and Sustainability") is attracting the attention of consumers and retailers alike. Many retailers such as department stores, furniture and home furnishings, and interior housewares shops started offering new value standards and targeting lifestyle-conscious consumers.

Time-pressed consumers seek housewares that are time-saving and multi-functional. Outdoor leisure activities are viewed as good for relaxation and healing, and consumers will continue to look for outdoor leisure products such as items for the patio and the garden.

Opportunities

[Return to top](#)

Event: The 61st Tokyo International Gift Show
Date: February 14-17, 2006
Venue: Tokyo International Exhibition Center (www.bigsight.jp/)
URL: www.giftshow.co.jp/
Products: Giftware

Event: The 1st International Homefashion Fair
Dates: April 5-7, 2006
Venue: Tokyo International Exhibition Center (www.bigsight.jp/)
URL: www.mesago-messefrankfurt.com
Products: Housewares such as tabletop, cookware, kitchen accessories, cutlery and cleaning goods, small and major appliances, furniture and home furnishings, lightings, outdoor living and gardening items, giftware and other household consumer products.

Event: Interior Lifestyle/Ambiente Japan
Dates: June 14-16, 2006
Venue: Tokyo International Exhibition Center (www.bigsight.jp/)
URL: www.mesago-messefrankfurt.com
Products: Housewares such as tabletop, cookware, kitchen accessories, cutlery and cleaning goods, small and major appliances, furniture and home furnishings, lightings, outdoor living and gardening items, giftware and other household consumer products.

Event: The 62nd Tokyo International Gift Show
Dates: September 5-8, 2006
Venue: Tokyo International Exhibition Center
URL: www.giftshow.co.jp/
Products: Giftware

Event: International Furniture Fair Tokyo
Dates: November 22-25, 2006
Venue: Tokyo International Exhibition Center
URL: www.idafij.or.jp

Products: Furniture and home accessories

Resources

[Return to top](#)

CS Japan Contacts: Ms. Rika Namiki (Tokyo) Rika.Namiki@mail.doc.gov
Mr. Chris Yoshiyuki Ono (Tokyo) Chris.Ono@mail.doc.gov

International Development Association of Furniture Industry of Japan

www.idafij.or.jp

Japan Housewares Importers Association

www.jhi.or.jp

Soil Remediation / Engineering Services (ACE)

[Return to top](#)

Overview

[Return to top](#)

(millions of U.S. \$)	2003	2004	2005 (estimated)
Total Market Size	801	1,103	1,163
Total Local Production	785	1,081	1,140
Total Exports	0	0	0
Total Imports	10	22	23
Imports from the U.S.	8	17	20

Note: CS Japan has estimated the above statistics based on information from the Geo-environment Protection Center (the largest soil remediation-related industry association under the Ministry of Environment). Currently, very few U.S. soil remediation/engineering firms have established offices in Japan. While several Japanese firms maintain licensing agreements with international firms, including U.S. firms, official information on direct sales by U.S. firms is not available.

Soil remediation is a fairly new market in Japan and is expected to offer an increasing number of business opportunities. According to Japanese industry observers and environment-related industry associations, the volume of Japan's contaminated land is huge, and more than \$120 billion (including expenses for engineering services and remediation machinery/equipment, and operation costs of remediation facilities) is required to improve the contaminated areas. Given these circumstances, soil remediation work is expected to gradually increase, and, by 2005, the market has grown to approximately \$1.2 billion annually.

While no official annual market statistics for the soil remediation "engineering services" segment in this market are available, we estimate it to have been approximately \$801 million in 2003 and \$1,103 million in 2004. Soil-remediation-related laws enacted in May 2002 were expected to expand the demand, but those laws do not necessarily mandate soil purification work but rather simple civil engineering work to cover contaminated land.

We expect that those laws and related regulations will contribute to increased awareness among industries of huge potential risks in their real estate transactions related to soil contamination. Consequently, owners of contaminated property are likely to take clean-up measures prior to the sale of the real estate to outside owners.

Soil remediation engineering services are, in general, divided into two categories in Japan, (1) planning, research and design (PRD) and (2) remediation work to clean up the soil (RMCUS). U.S. expertise in PRD is expected to be the more attractive of these two categories. The major causes of contamination are improper treatment or leakage of hazardous substances causing permeation into the groundwater. The primary hazardous substances are heavy metals, volatile organic compounds and complex pollution.

Best Products/Services

[Return to top](#)

Several Japanese firms, particularly general contractors and water treatment firms, have dominated the market. U.S. firms with new technologies or approaches will find success by effectively gathering market information, becoming familiar with laws and regulations, and establishing ties with various Japanese companies including general contractors and water treatment companies. It is also important to tie up with Japanese PRD companies and civil-engineering consulting firms.

Opportunities

[Return to top](#)

U.S. firms interested in marketing their Soil Remediation / Engineering Services expertise to the Japanese market sector should focus their efforts on industrial sites with substantial contamination. Such areas as closed "Brownfield" factory facilities owned by major electric appliance, heavy electric, automobile and chemical industries often require soil remediation treatment.

Japan's premier trade show focusing on soil remediation is the Geo-Environmental Restoration Exposition:

2006 Exposition for Geo-Environmental Restoration

Dates: October 11-13, 2006

Venue: Tokyo Big Sight Convention Center

Organizer: Geo-Environmental Protection Center

URL: www.gepc.or.jp/

Resources

[Return to top](#)

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Geo-Environmental Protection Center www.gepc.or.jp/english/eindex.html

Education & Training Services (EDU)

[Return to top](#)

Overview

[Return to top](#)

	2003/2004	2004/2005	2005/2006 (estimate)
Total Market Size of Japanese Students (\$million)	927	994	1,043
Foreign students in U.S.	572,509	565,039	
Japanese students in US	40,835	42,215	43,000

(Note: Market size figures are unofficial estimates.)

Higher Education represents the 5th largest service sector export for the United States. In 2004/2005 a total of 565,039 foreign students studied in the United States, of which, 42,215 were Japanese students, indicating an increase of 3% from the previous year. This marked an increase for the first time since 2001/2002. In terms of the number of students studying in the United States, Japanese students ranked fourth after students from India, China and Korea. Spending by foreign students (and their spouses) in the United States (tuition & living expenses) is estimated at over \$13.3 billion dollars for 2004/2005.

About 70 percent of Japanese students are enrolled in undergraduate programs, in sharp contrast to Chinese and Indian students, who mainly enroll in graduate programs. In addition to the 42,215 students noted above, tens of thousands of Japanese go to the United States for short-term language studies.

Best Prospects/Services

[Return to top](#)

Interest in two-year colleges is rapidly growing, especially for schools with lower TOEFL requirements. Graduate studies in the United States are also becoming more attractive to Japanese students, with MBA programs being especially popular since Japan does not have equivalent programs. With the post-World War II baby boomers retiring in 2007-2009, we expect a good number of new retirees will enroll in two-week to one year study programs abroad.

Opportunities

[Return to top](#)

Event: U.S. University Fairs (IIE Fairs)
 Dates: October 21-22, 2006 (tentative)
 URL: www.iiehongkong.org/fairs.htm

Resources

[Return to top](#)

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Market reports are available through the USEAC offices nearest you or through our Homepage.

Telecommunications Equipment (TEL)

[Return to top](#)

Overview

[Return to top](#)

(millions of U.S. \$)	2003	2004	2005 (estimated)
Total Market Size	24,575	23,744	24,131
Total Local Production	26,248	24,975	24,475
Total Exports	4,444	4,281	3,638
Total Imports	2,770	3,050	3,294
Imports from the U.S.	381	308	340

(Source: Communications and Information Network Association of Japan for 2003 and 2004; unofficial US&FCS estimates for 2005)

Under the Government of Japan's "e-Japan" strategy, which aimed to make Japan "the world's most advanced IT nation" by 2005, Japan established an impressive national broadband network. According to the Ministry of Internal Affairs and Communications (MIC), as of September 2005, there were 21.4 million households with broadband connections, with roughly 14.3 million using ADSL, 3.1 million utilizing cable, and another 4.0 million households gaining access via Fiber-To-The-Home (FTTH). FTTH growth has been the most impressive.

The primary telecommunications manufacturers association, the Communications and Information Network Association of Japan (CIAJ), has about 200 members including leading Japanese manufacturers such as NEC, Fujitsu, Oki, and Hitachi. Most major European and North American telecom equipment suppliers also have offices in Japan, including Avaya, Cisco, Lucent and Nortel.

Japan's telecom equipment market is very competitive with world-class domestic manufacturers willing to engage in aggressive price competition. Even so, Japan remains a strong market for telecommunications network equipment including "last mile" solutions. Japan's 21.4 million broadband subscribers in Japan make it the second largest in the world.

Best Prospects/Services

[Return to top](#)

Carrier/enterprise products (FTTH, FWA, Router/Switch, WDM/DWDM/CWDM); wireless products; voice, DV and HD over IP; network security; IP telephones and load balancers.

Opportunities

[Return to top](#)

NetWorld+Interop 2006 Tokyo
June 7-9, 2006

www.interop.jp/call.html

Resources

[Return to top](#)

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Ministry of Internal Affairs and Communications (MIC)

www.soumu.go.jp/joho_tsusin/eng/index.html

Communications and Information network Association of Japan (CIAJ):

www.ciaj.or.jp/e.htm

Telecommunications Carriers Association (TCA):

www.tca.or.jp/index-e.html

Building Products (BLD)

[Return to top](#)

Overview

[Return to top](#)

(millions of U.S. \$)	2003	2004	2005 (estimated)
Total Market Size	110,792	120,059	120,867
Total Local Production	101,906	110,217	110,904
Total Exports	1,198	1,853	1,919
Total Imports	10,085	11,694	11,883
Imports from the U.S.	968	1,116	1,046

(Note: The above statistics include residential and commercial building products and are unofficial estimates. The exchange rates used are 115.93 yen/US\$ for 2003, 108.15 yen for 2004 and 109.63 yen for 2005.)

The Japanese residential and commercial building products market has been declining for the last several years as a result of a prolonged economic slump. However, the market decline has stopped since the Japanese economy started its recovery. The overall Japanese economy is expected to grow and the Japanese building products market is also expected to grow.

Annual housing starts in Japan were 1.4 - 1.6 million units from 1992 to 1997. However, from 1998 to 2000, housing starts declined to the 1.2 million level, declined further to 1.17 million in 2001, and stabilized in the 1.15–1.19 million range in 2002 and 2004. Housing starts will likely reach 1.25 million in 2005, the second highest level among developed countries. Over the long term, housing starts may decline to 1 million units by 2010 and 700,000 units by 2020 due to declining birth rates and lowered incomes. On the other hand, the Japanese home improvement market is expected to grow significantly over the next ten years. This is because the average life span of houses has lengthened, resulting in more money being spent on maintaining and improving existing houses.

Major exporters competing with the United States are: China, Canada, the countries of East Asia and Scandinavia. Since many Japanese companies are not all that familiar with imported building products, it is important for manufacturers and exporters to provide information on how to use their products, as well as to pay close attention to after sales service.

Best Prospects/Services

[Return to top](#)

Since it is extremely difficult for US products to compete with Chinese and other Asian building products on price, it is important to avoid price competition. US building products that have some unique features may have good potential in Japan. Wood windows and doors, vinyl windows, kitchen and bathroom faucets, paints and insulation materials are currently imported into Japan and may continue to have good potential.

Opportunities

[Return to top](#)

The Japan Management Association (JMA) organizes the Japan Home & Building Show (<http://www.jma.or.jp/jhbs/>). This show is one of the USDOC Certified trade shows. CS Japan and JMA will co-organize a USA Pavilion in the show in November 2006. For further details, please contact Kazuhisa.Takabatake@mail.doc.gov.

The Economic Research Association, a private association which publishes information concerning building materials and building technologies, has the "Kenchiku Shizai" database on its Japanese-only website (www.kensetsu-plaza.com/). This database lists many imported building materials that can be reviewed by Japanese general contractors and architectural design firms. This website may be a good gateway to disseminate product information of U.S. commercial building material manufacturers. Inquiries for registration of product information should be addressed to media@zai-keicho.or.jp.

A group of Japanese architectural design firms have established a database for their own use originally but later made it open for other architectural design firms and general contractors. This database, known as "Archimap," can be found at www.archimap.ne.jp/ (in Japanese only). Direct all inquiries to info@archimap.ne.jp.

Resources

[Return to top](#)

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Kazuhisa.Takabatake@mail.doc.gov

Commercial Building Products: Mr. Koji Sudo (CS Tokyo)
Koji.Sudo@mail.doc.gov

The Japan Home & Building Show (www.jma.or.jp/jhbs/) is organized by the Japan Management Association (JMA) and it is one of the USDOC Certified trade shows. CS Japan and JMA will co-organize a USA Pavilion in the show in November 2006. For further details, please contact Mr. Kazuhisa Takabatake (CS Osaka) at Kazuhisa.Takabatake@mail.doc.gov.

Building Materials/Housing Mailing List

CS Osaka-Kobe sends "CS Market Research" reports on the Japanese housing market to U.S. companies by e-mail. To be placed on our broadcast e-mail lists, please register at www.buyusa.gov/japan/en/mailing.html.

Useful Websites:

Japanese Ministry of Land Infrastructure and Transport (MLIT)
www.mlit.go.jp/english/index.html

Building Center of Japan (BCJ)
www.bcj.or.jp/en/

Evergreen Building Products Association
www.ep.org/

CS Japan's Website of "Residential Building Products, Housing and Interior Textiles"
www.buyusa.gov/japan/en/housing_textiles.html

Economic Research Association (English)
www.zai-keicho.or.jp/english/index.html

Safety and Security (SEC)

[Return to top](#)

Overview

[Return to top](#)

Market Size (millions of U.S. \$)	2003	2004	2005 (estimate)
Products and Systems	110	n/a*	n/a*
Security Services	293	n/a*	n/a*
Total Exports	n/a	n/a	n/a
Total Imports	n/a	n/a	n/a
Imports from the U.S.	n/a	n/a	n/a

(Note 1: Some figures are not available as security-related products fall under different product categories in trade reports)

(Note 2: * = figures to be released in January 2006)

The security industry has seen tremendous growth in Japan over the past few years. While concerns about terrorism since 9/11 have fueled this growth, the new phenomena (for Japan, at least) of rising crime rates and internet fraud have also contributed. Immediately after 9/11, the Japanese Cabinet Office generated a "To Do" list of priorities for the government to develop into security regulations as well as budget allocations to implement the new regulations. Broken down into categories, the plan is still in the process of being examined by individual ministries and agencies that are responsible for each respective category. Agencies such as the Ministry of Land, Infrastructure, & Transportation (MLIT) and Ministry of Health, Labor, & Welfare have already submitted their action plans.

According to an estimate by the Japan Security Systems Association, the market for security products and systems in 2003 was \$110 million, while the market for the security services, according to the National Police Agency, was \$293 million. Since 1998, these markets have increased by 40% and 30 % respectively; they are expected to register tremendous growth in the future as well.

Best Products/Services

[Return to top](#)

The Japanese Government plan targets sub-sectors and products that happen to be best prospects for U.S. companies. Sub-sectors that are especially promising in the private sector are: Information and Data Security Systems where financial institutions are introducing bio-metric systems; Physical and Home Security Systems (including school security) as the crime rate is skyrocketing (2.8 million cases in 2003, a 40% increase since 1998). As a result, bio-metric identification systems and monitoring and alarm systems will see strong growth in the future.

For government procurement, Airport and Aviation Security, and Seaport and Maritime Security are the most promising sub-sectors. To that end, the following products will have good prospects: armor related products, NBC preparedness equipment/medicines including detection and mapping devices, inspection systems, video surveillance/monitoring systems, alarm/network transmission systems, object tracking/behavior analysis systems.

Opportunities

[Return to top](#)

To penetrate the market, it is recommended that U.S. companies find partners through Commercial Service programs. Exhibiting at local trade shows is another approach to entering the market. There are two trade shows held annually in Japan for Safety and Security:

- 1) Security Show organized by Nikkei, March every year
www.shopbiz.jp/pages/t_index_e.phtml?PID=0004&TCD=SS

This event will be held for the 14th time in 2006. It attracts 70,000 to 75,000 visitors and more than 200 exhibitors.
- 2) Safety and Security Trade Expo organized by Tokyo Big Sight, October every year
www.kikikanri.biz/english/index.html

This event, held for the first time in 2005, attracted 38,000 visitors and 243 exhibitors.

Resources

[Return to top](#)

CS Japan Contact: Ms. Misa Shimizu (Sapporo)

Misa.Shimizu@mail.doc.gov

Cabinet Office Disaster Prevention
Fire & Disaster Management Agency
Fire Chiefs' Association of Japan
Japan Fire Equipment Inspection Institute
Japan Fire Retardant Association
Japan Security Systems Association
Firefighters' Association of Japan

www.bousai.go.jp/index.html
www.fdma.go.jp/index.html
www.fcjaj.gr.jp/
www.jfeii.or.jp/
www.jfra.or.jp/
www.ssaj.or.jp/

www.fcjaj.gr.jp/information/Public/kyoukai/index.htm

[Return to table of contents](#)

U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>.

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[Return to table of contents](#)



Doing Business in Japan: A Country Commercial Guide for U.S. Companies

Chapter 5: Trade Regulations and Standards

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- [Import Tariffs](#)
- [Trade Barriers](#)
- [Import Requirements and Documentation](#)
- [U.S. Export Controls](#)
- [Temporary Entry](#)
- [Labeling and Marking Requirements](#)
- [Prohibited and Restricted Imports](#)
- [Special Import Provisions](#)
- [Customs Contact Information](#)
- [Standards](#)
- [Trade Agreements](#)
- [Web Resources](#)

Import Tariffs

[Return to top](#)

According to the Japan Tariff Association, the average applied tariff in Japan is one of the lowest in the world. In addition, import duties on many agricultural items continue to decrease, and tariffs in many major sectors, such as autos and auto parts, software, computers, and industrial machinery are zero. However, certain products including leather goods, certain processed foods and some manufactured goods have relatively high tariff rates. While Japan's import tariffs are relatively low overall, their average agricultural import tariff is among the world's industrialized countries' highest at roughly 50 percent (versus the United States at 12 percent and the European Union at 30 percent).

The Customs and Tariff Bureau of Japan's Ministry of Finance administer tariffs. As a member of the Harmonized System Convention, Japan shares the same trade classification system as the United States (limited to six-digit code). Japan's tariff schedule has four columns of applicable rates: general, WTO, preferential, and temporary. Goods from the United States are charged WTO rates unless a lesser "temporary" rate exists. Japan's preferential system of tariffs grants lower or duty-free rates to products imported from developing countries.

A simplified tariff system for low-value imported freight valued at less than 100,000 yen, such as small packages for personal imports, simplifies determination of tariff rates. This system also eliminates the extra time necessary to classify the product and its precise value, and thereby minimizes customs brokers' handling charges. Importers can choose either the normal rate or the simple tariff, which could be higher or lower. Japanese Customs can provide an advance ruling on tariff classification and duty rates.

Trade Barriers

[Return to top](#)

While tariffs are generally low, Japan does have barriers that impede or delay the importation of foreign products into Japan. Although competition, U.S. and other foreign government pressure, as well as other factors have lessened the impact of these impediments, U.S. companies may still encounter non-tariff barriers such as the following:

- standards unique to Japan (formal, informal, *de facto*, or otherwise);
- a requirement for companies to demonstrate prior experience in Japan, effectively shutting out new entrants in the market;
- official regulations that favor domestically-produced products and discriminate against foreign products;
- licensing powers in the hands of industry associations with limited membership, strong market influence, and the ability to control information and operating without oversight;
- cross stock holding and interconnection of business interests among Japanese companies that disadvantages suppliers outside the business group;
- cartels (both formal and informal) and;
- the cultural importance of personal relationships in Japan and the reluctance to break or modify business relationships.

The tools available to overcome these non-tariff barriers depend on the industry, the product or service's competitiveness, and the creativity and determination of the firm's management. In addition, it is important to note that these non-tariff barriers exist in a highly competitive market — Japan is a large and sophisticated market, and the competition can be fierce. A fair number of companies have benefited or failed simply as a result of timing and general economic conditions. However, the vast majority of successful foreign companies have had to evaluate and adjust their initial market entry strategy as their understanding of the market and their ability to adapt to the Japanese market increased.

Import Requirements and Documentation

[Return to top](#)

Japan assesses tariff duties on the CIF value at *ad valorem* or specific rates, and in a few cases, charges a combination of both. Japan's Ministry of Finance maintains a

website at www.customs.go.jp/index_e.htm that describes import clearance and customs procedures, and provides contact information and other detailed information in English.

Japanese customs regulations, like those of the United States, can be cumbersome, difficult to understand, and sometimes frustrating, but they are largely mechanical. Nearly all customs difficulties result from first time applications. Japanese customs officials are generally very helpful when it comes to explaining procedures and regulations, and once these are understood and followed, difficulties are usually minor and rare.

Japan prohibits the importation of certain items including narcotics, firearms, counterfeit currency, pornography, and products that violate intellectual property laws. In addition, Japan imposes restrictions on the sale or use of certain products including those related to health such as medical products, pharmaceuticals, agricultural products, chemicals and explosives. For these products, Japanese Customs reviews and evaluates the product for import suitability before shipment to Japan.

Certain items may require a Japanese import license. These include hazardous materials, animals, plants, perishables, and in some cases articles of high value. Import quota items also require an import license, usually valid for four months from the date of issuance. Other necessary documents for U.S. Exporters may include an Import Declaration Form (Customs Form C-5020) and a certificate of origin if the goods are entitled to favorable duty treatment determined by preferential or WTO rates. In practice, shipments from the United States are routinely assessed using WTO or "temporary" rates without a certificate of origin. Any additional documents necessary as proof of compliance with relevant Japanese laws, standards, and regulations at the time of import may also apply.

Documents required for customs clearance in Japan include standard shipping documents such as a commercial invoice, packing list, and an original and signed bill of lading, or, if shipped by air, an air waybill. Air shipments of values greater than ¥100,000 must also include a commercial invoice. The commercial invoice should be as descriptive as possible on each item in the shipment. The packing list should include the exact contents of each container, the gross and net weights of each package, and all container measurements using metric sizes.

U.S. Export Controls

[Return to top](#)

As an active member of the Wassenaar Arrangement as well as various other international export control regimes, Japan enjoys the least restrictive treatment under U.S. export control law. In response to the threat from global terrorism, the Japanese government has implemented "catch-all" controls to prevent Japanese firms from exporting goods and technologies that could be related to the development of weapons of mass destruction. In APEC, Japan has a leading role in regional export control with its Asian trading partners. At the same time, however, Japanese firms are engaged in business activities with countries against which the United States currently has embargoes. As such, U.S. exporters are encouraged to conduct thorough research and background checks pertaining to any potential sale of controlled or sensitive items, especially with an eye towards potential transshipment through Japan.

For the latest in U.S. export and re-export control regulations, please contact the Department of Commerce Bureau of Industry and Security (BIS) at www.bis.doc.gov/.

For defense-related articles, contact the Department of State Office of Defense Trade Controls at www.pmdtc.org/.

For current U.S. embargo information, contact the Department of Treasury Office of Foreign Assets Control at www.treas.gov/offices/enforcement/ofac/.

Temporary Entry

[Return to top](#)

Japan is a member of the International Convention to Facilitate the Importation of Commercial Samples and Advertising Materials under the ATA *Carnet* System. Use of a *carnet* allows goods such as commercial and exhibition samples, professional equipment, musical instruments and television cameras to be carried or sent temporarily into a foreign country without paying duties or posting bonds. A *carnet* should be arranged for in advance by contacting a local office of the United States Council for International Business (www.uscib.org/) or its New York office by phone (212-354-4480) or by e-mail (info@uscib.org).

Advertising materials, including brochures, films and photographs, may enter Japan duty free. Articles intended for display but not for sale at trade fairs and similar events are also permitted to enter duty free in Japan only when the fair/event is held at a bonded exhibition site. These bonded articles must be re-exported after the event, or stored at a bonded facility. A commercial invoice for these goods should be marked “no commercial value, customs purposes only” and “these goods are for exhibition and are to be returned after conclusion of the exhibition.” It is also important to identify the name of the trade show or exhibition site, including exhibition booth number (if known), on shipping documents.

Labeling and Marking Requirements

[Return to top](#)

Correct packing, marking, and labeling are critical to smooth customs clearance in Japan. Straw packing materials are prohibited. As noted above, the Japanese Measurement Law requires that all imported products and shipping documents show metric weights and measures. For most products there is no requirement for country of origin labeling; however, some categories such as beverages and foods do require such labeling. However, if labels indicating origin are determined to be false or misleading, the labels must be removed or corrected. False or misleading labels which display the names of countries, regions or flags other than the country of origin, and/or names of manufacturers or designers outside the country of origin are not permissible.

Items that are required by Japanese law to bear labels cover four product categories: textiles, electrical appliances and apparatuses, plastic products and miscellaneous household/consumer goods. Because all these regulations apply specifically to individual products, it is important to work with a prospective agent/importer to ensure your product meets the requirements, if applicable. In general, most labeling laws are not required at the customs clearance stage, but at the point of sale. Consequently, it is most common for Japanese importers to affix a label before or after clearing customs.

Prohibited and Restricted Imports

[Return to top](#)

Japan strictly prohibits entry of narcotics and related utensils, firearms, firearm parts and ammunition, counterfeit or imitation money, obscene materials, or goods that violate intellectual property rights. The use of chemicals and other additives in foods and cosmetics is severely restricted by regulations that follow a "positive list" approach. Restricted items include but are not limited to certain agricultural and meat products, endangered species and products such as ivory, animal parts and fur whose international trade is banned by international treaty, and more than two months' supply of medicines and cosmetics for personal use.

Special Import Provisions

[Return to top](#)

Japan places few formal barriers on imported goods and its average tariff rates are among the lowest in the world, in line with other industrialized nations. Nevertheless, tariff rates on many imported agricultural products remain high. Moreover, many imports face a wide and complex range of standards, certifications, and other informal and technical barriers, including health and sanitary regulations. Thus, the import process is at times slow and difficult.

In response to complaints from trading partners that Japan discourages the consumption of foreign products, years ago the Government of Japan launched a number of programs to help foreign companies export to Japan. The Japan External Trade Organization (JETRO), the Manufactured Imports Promotion Organization (MIPRO), and Japan's Ministry of Economy, Trade and Industry (METI) administer these programs. Assistance available includes low interest loans to encourage imports, assistance in finding Japanese business partners, market research, export study programs, and the provision of free temporary office space in six Japanese cities.

Emphasis has recently been switching from import promotion to the promotion of investment into Japan. For example, JETRO's long-term Senior Trade Advisors, initially dispatched to U.S. state governments to offer advice on exporting to Japan, now are also providing investment advice. JETRO still organizes "study tours" to Japan for U.S. business people to better understand the Japanese market, and operates Business Support Centers in Tokyo, Yokohama, Nagoya, Osaka, Kobe, and Fukuoka. JETRO also publishes numerous market research and trade facilitation information, maintains business-matchmaking databases, organizes import fairs in Japan, and provides business counseling. Information about JETRO and its programs is available at www.jetro.go.jp/.

Customs Contact Information

[Return to top](#)

Ministry of Finance
3-1-1 Kasumigaseki, Chiyoda-ku
Tokyo 100-8940
Japan
Phone: +81/3/3581-4111
www.mof.go.jp/english/tariff/tariff.htm
www.customs.go.jp/index_e.htm

Customs Counselors System in Japan
Tokyo Headquarters
Phone: +81/3/3529-0700
www.customs.go.jp/zeikan/seido/telephone_e.htm

Japan Tariff Association
Chibiki 2nd Bldg., 8F
4-7-8 Kojimachi, Chiyoda-ku
Tokyo 102-0083
Japan
Phone: + 81/3/3263-7221
Fax: + 81/3/3263-7972
www.kanzei.or.jp/english/

APEC Tariff Database
www.apectariff.org/

Standards

[Return to top](#)

- [Overview](#)
- [Standards Organizations](#)
- [Conformity Assessment](#)
- [Product Certification](#)
- [Accreditation](#)
- [Publication of Technical Regulations](#)
- [Labeling and Marking](#)

Overview

[Return to top](#)

Many domestic and imported products alike are subject to product testing and cannot be sold in Japan without certification of compliance with prescribed standards. Knowledge of, and adherence to, these standards and their testing procedures can be the key to making or breaking a sale. Product requirements in Japan fall into two categories: technical regulations (or mandatory standards) and non-mandatory voluntary standards. Compliance with regulations and standards is also governed by a certification system in which inspection results determine whether or not approval (certification/quality mark) is granted. Approval is generally required to sell a product or even display it in a trade event; unapproved medical equipment may be displayed if accompanied by a sign indicating that the product is not yet approved for sale. To affix a mandatory quality mark or a voluntary quality mark requires prior product type approval and possibly factory inspections for quality control assessment. Regulated products must bear the appropriate mandatory mark when shipped to Japan in order to clear Japanese Customs. Regulations may apply not only to the product itself, but also to packaging, marking or labeling requirements, testing, transportation and storage, and installation. Compliance with "voluntary" standards and obtaining "voluntary" marks of approval can greatly enhance a product's sales potential and help win Japanese consumer acceptance.

There are two ongoing trends in Japan regarding standards. One is a move

toward reform of such standards, and the other is a move toward bringing them into harmony with prevailing international standards. While reform is underway, a long list of laws containing mandatory standards remain on the books and most have not been translated into English. Therefore, it is important that a Japanese agent or partner be fully aware of the wide variety of legislation that could affect the sale of the exported product in Japan. Major laws stipulating standards that apply to products in Japan include the following:

- Electrical Appliance and Material Control Law
- Consumer Product Safety Law
- Gas Utility Industry Law
- Food Sanitation Law
- Pharmaceutical Affairs Law
- Road Vehicles Law
- Building Standards Law

Standards Organizations

[Return to top](#)

The Japan Industrial Standards Committee (JISC) plays a central role in standards activities in Japan (www.jisc.go.jp/eng/index.html). Its mission consists of four elements: (1) establishment and maintenance of Japan Industrial Standards (JIS), (2) administration of accreditation and certification, (3) participation in international standards activities, and (4) development of measurement standards and technical infrastructure for standardization. JISC publishes plans each month for the preparation of new and revised JIS drafts on its website:

www.jisc.go.jp/eng/jis-act/drafts-preparation.html.

Existing JIS standards are reviewed and revised every 5 years. Once a new or revised draft JIS standard has been prepared, JISC posts these draft standards for a sixty-day public comment period: see www.jisc.go.jp/app/pager. The JISC website also provides information regarding how foreign entities may participate in the JIS drafting process.

The "voluntary" JIS mark, administered by the Ministry of Economy, Trade, and Industry (METI), applies to nearly 600 different industrial products and consists of over 8,500 standards. Adherence to JIS is also an important determinant for companies competing on bids in the Japanese government procurement process. Products that comply with these standards will be given preferential treatment in procurement decisions under Japan's Industrial Standardization Law. JIS covers all industrial products except for those products regulated by specific national laws or for which other standard systems apply (e.g., the Pharmaceutical Affairs Law and Japan Agricultural Standards).

The Japan Agricultural Standards (JAS) mark is another "voluntary" but widely used product quality and labeling mark. JAS applies to beverages, processed foods, forest products, agricultural commodities, livestock products, oils and fats, products of the fishing industry, and processed goods made from agricultural, forestry, and fishing industry raw materials. Specific JAS marks exist for various types of plywood, paneling, flooring boards, lumber, and timber. The JAS

marking system is administered by Japan's Ministry of Agriculture, Forestry and Fisheries (MAFF). Japan's Ministry of Health, Labor and Welfare (MHLW) administers separate mandatory standards for quality labeling of processed foods and beverages.

Conformity Assessment

[Return to top](#)

The Japan Accreditation System for Product Certification Bodies of JIS Mark (JASC) is an accreditation program defined by the JIS Law, and operated by the JASC Office in METI. JASC accredits product certification bodies in the private sector and allows them to certify companies so that they may place the JIS Mark on their products. A list of Japanese and foreign organizations accredited by JASC as "JIS mark" certification bodies is available at the JISC website (www.jisc.go.jp/eng/jis-mark/acc-insp-body.html). This list provides contact information as well as the JIS field of certification for these testing organizations. The two major non-governmental accreditation bodies in Japan are IAJapan (within the quasi-governmental National Institute of Technology and Evaluation) and the Japan Accreditation Board for Conformity Assessment (JAB). IAJapan operates several accreditation programs including the Japan National Laboratory Accreditation System (JNLA) and the Japan Calibration Service System (JCSS). IAJapan's website (www.nite.go.jp/asse/iajapan/en/index.html) provides lists of laboratories accredited under its programs, and laboratories accredited by JAB can be found at:

www.jab.or.jp/cgi-bin/jab_exam_proof.cgi?page=1&eng=1.

Product Certification

[Return to top](#)

A limited number of testing laboratories in the United States not listed on the websites noted above in "Conformity Assessment" have also been designated by various Japanese government agencies to test and approve U.S. products for compliance with Japanese mandatory certification systems and laws. Products not covered by these arrangements must be tested and approved by Japanese testing labs before these products can be sold in Japan.

Accreditation

[Return to top](#)

Please see the "Conformity Assessment" section above.

Publication of Technical Regulations

[Return to top](#)

Each Japanese ministry posts draft regulations for public comment on their respective websites. It should be noted that although U.S. entities may submit comments, the amount of time given for submissions varies widely and most postings are made only in Japanese. To assist U.S. entities that wish to participate in the Japanese regulatory process, CS Tokyo prepares a weekly summary translation of selected public comment announcements by Japanese government agencies available at:

<http://www.buyusa.gov/japan/en/mac.html>.

Finalized technical regulations and standards are published in Japan's national gazette known as the *Kanpō* (kanpou.npb.go.jp/, Japanese only).

Labeling and Marking

[Return to top](#)

As noted above, Japanese laws requiring product certification and labeling are numerous. A good reference for information on these requirements is JETRO's Handbook for Industrial Product Import Regulations available at:

www.jetro.go.jp/en/market/regulations/index.html.

Trade Agreements

[Return to top](#)

As of December 2005, Japan has concluded FTAs with Singapore, Mexico, and Malaysia, and is expected to conclude FTAs shortly with Thailand and the Philippines. It is currently negotiating FTAs with Indonesia and the Republic of Korea and is also pursuing an FTA with the Association of Southeast Asian Nations. Study groups exploring future bilateral FTAs have also been established between Japan and the following countries: Chile, India, Switzerland, Australia, South Africa, and Canada. Japan agreed in December 2005 to establish FTA study groups with Vietnam and Brunei. Japan is a member of APEC, which has established a goal of APEC-wide free trade and investment for developed economy members by 2010, and for all APEC member economies by 2020.

Web Resources

[Return to top](#)

Japanese import clearance and customs procedures:

Japanese Ministry of Finance
www.customs.go.jp/index_e.htm

Japanese Customs:

Japanese Ministry of Finance
www.mof.go.jp/english/tariff/tariff.htm

Customs Counselors System in Japan
www.customs.go.jp/zeikan/seido/telephone_e.htm

Japan Tariff Association
www.kanzei.or.jp/english/

APEC Tariff Database
www.apectariff.org/

U.S. export control procedures:

U.S. Department of Commerce
Bureau of Industry and Security (BIS)
www.bis.doc.gov/

(for defense-related articles)
U.S. Department of State
Office of Defense Trade Controls
www.pmdtc.org/

(for current U.S. embargo information)
U.S. Department of the Treasury
Office of Foreign Assets Control
www.treas.gov/offices/enforcement/ofac/

Obtaining a temporary-entry *carnet*:

United States Council for International Business
Local Offices — www.uscib.org/
N.Y. Office — info@uscib.org

www.atacarnet.com/

Standards:

Japan Industrial Standards Committee (JISC)
www.jisc.go.jp/eng/index.html

International Accreditation Japan (IAJapan)
www.nite.go.jp/asse/iajapan/en/index.html

Japan Accreditation Board for Conformity Assessment (JAB)
www.jab.or.jp/cgi-bin/jab_exam_proof.cgi?page=1&eng=1

Japanese government regulations:

(for public comment updates)
U.S. Commercial Service
American Embassy Tokyo
www.buyusa.gov/japan/en/mac.html.

(for finalized technical regulations and standards)
Japan National Gazette (*Kanpō*)
kanpou.npb.go.jp/ (Japanese only)

Labeling and marking requirements:

Japan External Trade Organization (JETRO)
www.jetro.go.jp/en/market/regulations/index.html

[Return to table of contents](#)

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[Return to table of contents](#)



Doing Business in Japan: A Country Commercial Guide for U.S. Companies

Chapter 6: Investment Climate

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- [Openness to Foreign Investment: Few Formal Restrictions](#)
- [Conversion and Transfer Policies: Generally Uninhibited](#)
- [Expropriation and Compensation: Virtually No Risk](#)
- [Dispute Settlement: No Outstanding Cases in Investment Area](#)
- [Performance Requirements and Incentives: None](#)
- [Right to Private Ownership and Establishment: Secure for Foreign Business](#)
- [Protection of Intellectual Property Rights: Can Be Time-Consuming and Costly](#)
- [Transparency of Regulatory System: Toward More Openness](#)
- [Efficient Capital Markets and Portfolio Investment: Some Restrictions](#)
- [Political Violence: Rare to Unknown](#)
- [Corruption: Evolution Towards Stricter Ethical Standards](#)
- [Bilateral Investment Agreements: Continuing Discussions Under EPG](#)
- [OPIC and Other Investment Insurance Programs: Not Available](#)
- [Labor: Toward More Flexibility](#)
- [Foreign-Trade Zones / Free Ports / Special Zones for Structural Reform](#)
- [Foreign Direct Investment Statistics: Steady Increase in Japan's FDI Stock in CY2004](#)
- [Web Resources](#)

Openness To Foreign Investment: Few Formal Restrictions

[Return to top](#)

Japan, the world's second-largest economy, is an immense potential market for U.S. foreign direct investment (FDI). The Government of Japan (GOJ) imposes few formal restrictions on FDI in Japan, and has removed or liberalized most legal restrictions that apply to specific economic sectors. The government does not impose export-balancing requirements or other trade-related FDI measures on firms seeking to invest in Japan. Risks associated with investment in many other countries, such as expropriation and nationalization, are not an issue in Japan. Moreover, Prime Minister Koizumi's pledge to double cumulative FDI into Japan by the end of 2006 has energized GOJ efforts to promote and facilitate inward investment.

Low growth in Japan for over a decade has created many new opportunities for FDI in this extremely rich and broad market:

- Prices are down to their lowest point in a decade.
- More Japanese companies are actively looking for foreign partners to inject needed capital and know-how.
- There are distressed assets that can be profitably acquired and returned to economic viability.

The challenges facing foreign investors seeking to establish or enhance their presence in Japan — many of the most important of which are matters of private business practice rather than of government regulation — include:

- A high overall cost structure that makes market entry, exit, and expansion expensive;
- Cultural and linguistic challenges to doing business;
- Corporate practices and market rules that inhibit foreign acquisition of Japanese firms, such as insufficient financial disclosure practices, cross-holding of shares among companies belonging to the same business grouping (keiretsu), the low proportion of publicly traded common stock relative to total capital in many companies, and public attitudes about foreign takeovers;
- Exclusive buyer-supplier networks and alliances are still maintained by some “keiretsu,” which limit competition from foreign firms and domestic newcomers;
- Laws and regulations that directly or indirectly restrict the establishment of business facilities and hinder market access for foreign products, services, and FDI.
- Labor practices which inhibit labor mobility, repress productivity, and negatively impact development of skills.

All of these issues are currently being addressed in government-to-government talks, and progress is being made in many areas.

FDI in Japan has soared since the mid 1990s. In fact, FDI stock in Japan has more than tripled (on a yen basis) in the period 1998-2004, from 3.0 trillion yen at the end of 1998 to 10.1 trillion yen at the end of 2004. Reforms in the financial, communications, and distribution sectors have encouraged foreign investment into these sectors. Improvements in corporate laws, bankruptcy laws, and accounting principles have also helped attract foreign capital to Japanese companies. In 2004, FDI toward Japan reached \$7.8 billion, up from \$6.3 billion in CY 2003, but not as strong as the \$9.2 billion inflow recorded in 2002.

However, Japan continues to host the smallest amount of inward foreign investment as a proportion of total output of any major OECD nation. Foreign participation in mergers and acquisitions (M&A), which account for some 80% of FDI in other OECD countries, although on an upward trend, also lags in Japan. Meanwhile, Japan continues to run an imbalance between its inward and overseas FDI (see Table 1). Japan's direct investment abroad increased in CY 2004 to \$31.0 billion, from the \$28.8 billion level of CY 2003. Japan's relative lack of foreign investment also acts as a restraint on the expansion of imports.

In the past five years, ongoing economic restructuring (due in large part to the more competitive financial sector and greater emphasis on rate of return), and changes in Japan's financial markets contributed to growth in foreign direct investment in Japan in non-financial sectors. Distribution affiliations, joint ventures, and mergers and

acquisitions involving foreign and Japanese financial services providers have accelerated rapidly, as foreign firms take advantage of business opportunities being created in Japan's financial sector as a result of the Japanese government's "Big Bang" and the U.S. government's deregulation initiative with Japan. Japanese financial firms have started to look overseas for assistance in the form of new products, technologies and capital to meet these challenges. In addition, foreign firms have stepped in to buy the assets of domestic financial services firms that have recently failed. At the same time, structural impediments to foreign investment remain, and it is not certain that inward foreign investment flows will continue to accelerate.

Acknowledging that FDI in Japan lags far behind that of other industrialized economies, the GOJ has in recent years taken some welcome steps to address investment-related problems. Of most recent significance is the GOJ initiative to revise the Commercial Code. Other legislation reforming bankruptcy procedures has provided M&A opportunities, as distressed Japanese companies are able to seek partners or buyouts. The Ministry of Economy, Trade and Industry (METI) in particular is taking seriously the challenge of attracting greater foreign investment to Japan, and the Cabinet Office is coordinating a government-wide project to develop consistent translations of laws and regulations affecting foreign investors into foreign languages, starting with English. At the regional level, a number of prefectural and city governments are intensifying their efforts to attract foreign investors.

Liberalization of Investment Restrictions

Japan has gradually eliminated most of the formal restrictions governing its FDI regime. In 1991, the GOJ amended the Foreign Exchange and Foreign Trade Control Law (which also controls foreign investment) to replace the long-standing "prior notification" requirement for all FDI with an "ex post facto notification" requirement for investment in non-restricted industries. "Prior notification" (and thus case-by-case approval) is now required only for investment in certain restricted sectors, including agriculture, forestry, petroleum, electrical/gas/water utilities, aerospace, telecommunications, and leather manufacturing. Administrative approval for foreign investment in some of these sectors is quite certain, while in other sectors it is likely to be subject to greater scrutiny based on "national sovereignty" or national security concerns.

U.S. investment has become increasingly common in some traditionally restricted sectors, particularly in the petroleum and telecommunications industries. The only legal restriction on foreign ownership in Japan's telecommunications sector applies to Nippon Telegraph and Telephone (NTT): foreign investment in NTT, which is now one third owned by the government of Japan, as specified by the NTT Law. In the fall of 2001, Europe's Vodafone mobile telecommunications group took control of one of Japan's competing telecommunications operators, Japan Telecom, with an \$11 billion investment that set a record as the single largest foreign investment in Japan; Vodafone subsequently sold Japan Telecom to Ripplewood, which in turn sold it to Softbank, a Japanese company. Japan's Radio Law and Broadcasting Law limit foreign investment in broadcasters to 20 percent, or at one third for a broadcasters categorized as facility-supplying. Under a revision that passed the Diet in October 2005, foreign ownership of Japanese companies investing in terrestrial broadcasters will also be counted against these limits. However, these limits do not apply to communications satellite facility owners and program suppliers or to cable television operators.

Several sections of the Japanese Antimonopoly Law (AML) are relevant to FDI. For example, chapter four of the AML includes extensive antitrust provisions pertaining to international contract notification (section 6), stockholding (sections 10, 14), interlocking corporate directorates (section 13), mergers (section 15), and acquisitions (section 16). The stated purpose of these sections is to restrict any stockholding, management, joint venture, and M&A activities that constitute unreasonable restraints on competition or involve unfair trade practices. These provisions are not intended to discriminate against foreign companies or to discourage FDI.

Limitations on Facility Development, and Availability of Investment Real Estate

While the nationwide average price of real estate has fallen for 13 consecutive years (since 1992), real estate prices in major urban areas (although less than half the 1991) are high and have begun to rise. Potential foreign investors find that high prices of commercial office space an obstacle to investment in Japan. Lack of information on land prices and ownership also impedes foreign and domestic investors, by making it harder to assess the real asset value of potential business partners or acquisition targets.

Revisions to the Securities Investment Trust Law, enacted in November, 2000, lifted the ban on real estate investment trusts (REITs) to permit marketing of mutual funds that invest in property rights. In 2005, there were about 28 REIT listed on the Tokyo Stock Exchange holding more than 3 trillion yen in real estate assets. As of June 2005, REITs owned 529 properties mostly in the Tokyo metropolitan area. REITs are increasing demand for transparency and accurate pricing in the real estate market. The Association for Real Estate Securitization (ARES) has announced that it will begin releasing investment indexes for real estate investments in major cities in 2006.

Aiming to increase the liquidity of Japanese real estate markets, over the recent years the government has progressively lowered capital gains, registration, and license taxes on real estate. In fiscal 2003, land transaction tax rates for licensing and registration were reduced from 5 percent to 1 percent (they will increase to 2 percent from 2006). Inheritance and gift taxes were also reduced to promote transfer of land and other assets from the older to the younger generation. More changes in tax policy and accounting standards could increase real estate liquidity, but the market is still hampered by the shortage of legal and accounting professionals, the lack of information on prices and income flows, and taxes that discourage real estate transactions. Beginning March 31, 2001, the Japan Institute of Certified Public Accountants introduced a standard requiring companies to write off substantial losses (50% or more) on real estate inventories acquired for sale or development, further encouraging liquidity in real estate markets.

Japan continues to restrict the development of industrial and commercial facilities in some areas in an attempt to prevent excessive concentration of development in the environs of Tokyo, Osaka, and Nagoya, and also to protect land designated as optimal for agriculture. On the other hand, many prefectural governments outside the largest urban areas will make available property in public industrial parks. Generally speaking, Japan's zoning laws give local Japanese officials and residents considerable discretionary authority to screen almost all aspects of a proposed building. These factors effectively reduce the real estate available for development and often lead to delays in construction and higher building costs.

Corporate Tax Treatment

Local branches of foreign firms are generally taxed only on corporate income derived from within Japan, whereas domestic Japanese corporations are taxed on their worldwide income. The calculations of taxable income and allowable deductions, and payments of the consumption tax (sales tax), are otherwise the same as those for domestic companies, with national treatment for foreign firms. Corporate tax rules classify corporations as either foreign or domestic depending on the location of their "registered office," which may be the same as or a proxy for the place of incorporation. The United States has a tax treaty with Japan that generally allows Japan to tax the business profits of a U.S. resident only to the extent those profits are attributable to a "permanent establishment" in Japan, and in addition provides measures intended to mitigate double taxation. A new bilateral tax treaty between the United States and Japan came into full force in January 2005.

Under the terms of the new bilateral tax treaty, cross-border dividends on listed stock are not subject to source country withholding tax if the parent company owns 50% or more of the foreign subsidiary. Interest on financial transactions payable to a nonresident as well as royalties paid to a foreign licensor are also no longer subject to source country withholding tax.

A special tax measure allows designated inward investors to carry over certain losses for tax purposes for ten years rather than for the normal five years. In JFY96, the scope of losses that qualify for this special measure was expanded. As part of the JFY03 Tax Reform, Japan's effective corporate tax rate, including local taxes, was reduced from 40.87% to 39.54%. Corporate tax reform proposals for FY06 abolished tax breaks for IT-related investments and created new tax incentives for advanced software investments.

The option of consolidated taxation was made available to corporations since April 1, 2002. Consolidated taxation was intended to facilitate investment and corporate restructuring, because the losses usually expected from a new venture or recently acquired subsidiary can be charged against the profits of the parent firm or holding company.

Investment Incentives

In Japan, both government and the private sector are increasingly promoting inward FDI. At a meeting in June 2002, the Cabinet established FDI promotion as one of the key strategies for revitalizing the Japanese economy and resolved to put teeth into the measures needed to attract investment. In a General Policy Speech in January 2003, Prime Minister Koizumi pledged to double the cumulative amount of FDI over five years, from 6.6 billion yen at end-2001 to 13.2 billion yen by end-2006. Following this announcement, in March 2003, the Japan Investment Council (JIC) prepared a report setting out a "Program for Promoting Foreign Direct Investment," which discussed five target sectors and 74 measures. The Japanese Government endorsed these proposals and declared it would promptly implement them. (For more details on the report, see www.investment-japan.net/index.htm.)

Based on this report, the Invest Japan Business Support Center, a one-stop office to provide investment information to foreign companies, was established in the Japan External Trade Organization (JETRO) on May 26, 2003. (More detailed information is

available at www.jetro.go.jp/investjapan/. Furthermore, information desks have been established in all concerned ministries as a center for investment information and support for navigating administrative procedures.

Prior to this, in September 2002, the business sector established the Invest Japan Forum (IJF), composed of top Japanese and foreign managers. In December 2002 the IJF made recommendations for promoting FDI to the Prime Minister and the JIC. Many of these suggestions were incorporated in the JIC report. The U.S.-Japan Private Sector/Government Commission held on April 14, 2003, also shared the view that the two countries should dramatically increase FDI and follow up on the suggestions made by the IJF.

Local governments are also increasing their efforts to attract foreign capital, both through outreach to prospective foreign investors and by offering business start-up support services and limited financial incentives. Ongoing efforts to decentralize fiscal authority in Japan may give local governments the ability to offer tax breaks in the future. JETRO supports local governments' investment promotion efforts. Detailed information on FDI promotion at the local level is available in English on the JETRO website listed above.

The Japanese Government launched the “Special Zones for Structural Reform” initiative in April 2003, and to date the GOJ has approved 548 Special Zones. Building on ideas developed by local governments and private companies, this program designates certain local areas as exempt from one or more national regulations in order to develop the areas' special features. In theory, local governments can use the Special Zones initiative to obtain regulatory exemptions that significantly improve the investment environment, such as zones that would liberalize restrictions on ownership of hospitals, schools, and agricultural enterprises or allow localities to introduce exemptions for visas/resident qualifications to expand the acceptance of foreign engineers, tourists and exchange students. In practice, however, the Special Zones Office has rejected about 70 percent of all Special Zones proposals since the start of the initiative — in most cases due to the objections of the GOJ Ministry or Agency involved. Moreover, while a handful of approved Special Zones have addressed investment climate issues, most zone applications have not sought to create significant new opportunities for foreign investors. The Headquarters for the Promotion of Special Zones for Structural Reform, however, will continue to invite ideas on new zones from all sources, including domestic and foreign governments and private enterprises.

Conversion and Transfer Policies: Generally Uninhibited

[Return to top](#)

All foreign exchange transactions to and from Japan — including transfers of profits and dividends, interest, royalties and fees, repatriation of capital, and repayment of principal — are, in principle, freely permitted unless expressly prohibited. With the April 1998 revision of the Foreign Exchange Law, Japan moved to an ex-post notification system. This means that all foreign exchange transactions (unless specifically prohibited, including certain foreign direct investments, listed in the Appendix) no longer require prior notification or approval. In addition, the law eliminated the authorized foreign exchange bank system, whereby foreign exchange transactions all had to go through certain registered banks. All other restrictions on methods of payment — including netting of settlements — were also removed, enhancing the ability of foreign and Japanese financial firms to offer a fuller range of services in Japan. This has led to lower foreign exchange transaction costs for non-financial firms as well.

Japan is an active partner in the struggle to choke off terrorist financing. In coordination with other OECD members, the GOJ is strengthening due-diligence requirements for financial institutions. A know-your-customer law was passed in 2002. These changes could have an impact on the transfer of funds.

Expropriation and Compensation: Virtually No Risk

[Return to top](#)

In the post-war period, the GOJ has not expropriated or nationalized any enterprises, with the exception of the nationalization in 1998 of two large capital-deficient banks and, in 2002, of two small failed regional banks. Expropriation or nationalization of foreign investments is unlikely in the foreseeable future.

Dispute Settlement: No Outstanding Cases in Investment Area

[Return to top](#)

There have been no major bilateral investment disputes since 1990, and there are no outstanding expropriation or nationalization cases in Japan. There have been no cases of international binding arbitration of investment disputes between foreign investors and the GOJ since 1952. Japan is a member of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitration Awards. However, it has long been considered an inhospitable forum for international commercial arbitration. The Japan Commercial Arbitration Association, the only organization that arbitrates international trade and investment-related disputes, had 111 cases submitted to it between FY 1998 and FY 2004. In FY2004, the JCAA had 39 cases, of which 8 went to arbitration.

There are no legal restrictions on access by foreign investors to Japanese lawyers, and significant reforms in laws governing legal services and the judicial system are increasing the ability of foreign investors to obtain adequate legal advice on doing business in Japan – despite some foot-dragging on implementing rules by the Federation of Japanese Bar Associations (*Nichibenren*).

Based on the Program for Promoting Justice System Reform endorsed by the Cabinet in March 2002, the Government of Japan submitted and secured Diet passage in 2003 of legislation to promote cooperation and collaboration between Japanese lawyers (*bengoshi*) and foreign lawyers qualified under Japanese law (*gaiben*). The “Amendment to the Special Measures Law Concerning the Handling of Legal Business by Foreign Lawyers”, which took effect in April 2005, made the following changes:

- a. Eliminated the prohibition on the employment of *bengoshi* by *gaiben*;
- b. Eliminated the regulations on joint enterprises between *gaiben* and *bengoshi*; and
- c. Abolished legal provisions for specified joint enterprises (*tokutei kyodo jigyo*) and the establishment of joint enterprises between *bengoshi* or *bengoshi* professional corporations (*bengoshi hojin*) and *gaiben* (*gaikokuho kyodo jigyo*).

As a result of the enactment of the Amendment:

- a. A *gaikokuho kyodo jigyo* organized as a single law firm or as separate firms can provide integrated legal advice and legal services on any and all matters within the competence of its members;
- b. *Gaiben* and *bengoshi* or *bengoshi hojin* in *gaikokuho kyodo jigyo* can adopt a single law firm name of their choice;
- c. *Gaiben* and *bengoshi* in *gaikokuho kyodo jigyo* are free to determine the profit allocation among them freely and without restriction;
- d. *Gaiben* are permitted to hire *bengoshi* to work with them directly or in a *gaikokuho kyodo jigyo* or in a *gaikokuho-jimu-bengoshi jimusho* composed of multiple *gaiben*; and
- e. *Gaiben* and *bengoshi* continue to be permitted on an *ad hoc* basis to enter into relationships that involve the sharing of profits and expenses.

In another significant step, the Cabinet adopted in March 2002 a judicial reform program with the following results:

- To increase the number of legal professionals, the Ministry of Justice (MOJ) undertook to increase the annual number of persons who pass the Bar Examination to 1,500 by 2004 and to 3,000 by around 2010; and the Headquarters, in cooperation with the Ministry of Education, Culture, Sports, Science and Technology, introduced a new system of law schools, starting in April 2004. As of JFY 2005, seventy-four universities have established law schools.
- In 2003 the Diet passed a new Alternative Dispute Resolution (ADR) Law, including a major revision of the existing Arbitration Law and improvement of the legal framework for arbitration, including international commercial arbitration. The ADR Law will come into effect by May 31, 2007.
- To increase the speed and efficiency of civil litigation, in 2003 the Diet passed the Law Concerning Trial Facilitation which aims to reduce by half the length of time required to complete court trials through measures to promote efficient scheduling of hearings, increase significantly the number of judges and court personnel, and facilitate litigants' collection of evidence at early stages of litigation. The law took effect on July 16, 2003.
- The GOJ submitted legislation to the Diet in mid-January 2003 to reduce filing fees for civil litigation.
- The Diet passed a partial amendment of the Administrative Case Litigation Law, which came into effect on April 1, 2005, to strengthen judicial oversight over administrative agencies.
- The Diet passed the Law on the Establishment of the Intellectual Property High Court. The first Intellectual Property High Court was established in Tokyo on April 1, 2005.

More generally, Japan's civil courts enforce property and contractual rights, and the courts do not discriminate against foreign investors. However, they are sometimes ill suited for litigation of investment and business disputes. As in many other countries, Japanese courts operate rather slowly. As noted above, the Judicial Reform Promotion Headquarters is enacting a number of changes to speed the conduct of trials.

In addition, the courts lack contempt powers to compel a witness to testify or a party to comply with an injunction, and timely temporary restraining orders and preliminary injunctions are very difficult to obtain. While filing fees for large civil cases were reduced in 1992, they are still based on the amount of the claim, rather than a flat fee. Lawyers usually require large up-front payments from their clients before filing a lawsuit, with a modest contingency fee, if any, at the conclusion of litigation. Contingency fees familiar in the U.S. are relatively uncommon. A losing party can delay execution of a judgment merely by appealing, and in appeals to the high courts, additional witnesses and other evidence are sometimes allowed.

Courts do have power to encourage mediated settlements, and the courts have a supervised mediation system. Parties can manipulate this system to delay resolution, however, and because judges move frequently, continuity is often lost. As a result, it is very common for companies to settle out of court.

Performance Requirements and Incentives: None

[Return to top](#)

Japan does not maintain a system of performance requirements. Japan also maintains no formal requirements for local management participation or local control in joint ventures or other forms of direct investment, except in restricted sectors.

Right to Private Ownership and Establishment: Secure for Foreign Business

[Return to top](#)

Japan legally maintains the right for foreign and domestic private enterprises to establish and own business enterprises and engage in all forms of remunerative activity.

Protection of Intellectual Property Rights: Can Be Time-Consuming And Costly

[Return to top](#)

Protection of intellectual property rights is an integral part of every successful U.S. exporter's basic market strategy in Japan. It is necessary to file applications to register patents and trademarks in Japan to obtain protection, but prior patent filing in the United States can provide certain advantages if applications are filed promptly in Japan. A U.S. patent or trademark attorney can provide informal advice, but it is necessary to hire a Japanese lawyer or patent practitioner (*benrishi*) registered in Japan to prosecute the patent or trademark application. In conformity with international agreement, Japan maintains a non-formality principle for copyright registration — *i.e.*, registration is not a pre-condition to the establishment of copyright protection. However, the Agency of Cultural Affairs maintains a registry for such matters as date of first publication, date of creation of program works, and assignment of copyright. U.S. copyrights are recognized in Japan by international treaty. U.S.-produced semiconductor chip design-layouts are protected for ten years under a special law if they are registered with the Japanese

“Industrial Property Cooperation Center” — a Japanese government-backed public corporation.

Obtaining and protecting patent and trademark rights in Japan can be time-consuming and costly, although patent fees have recently been reduced considerably. While the process to safeguard such rights might seem prohibitive, lack of protection would permit competitors both in and outside of Japan to copy a product or production process. Even when intellectual property rights have been acquired, pirating of technology and designs can occur in Japan, as in other countries. Each company in a trading or licensing agreement should understand clearly what its rights and obligations are with respect to the intellectual property rights owned or acquired by the other. Such a clear understanding helps to create a good rapport based on mutual trust, thereby ensuring the success of the trading or licensing agreement.

Patents, Trademarks, Utility Models and Designs

Unlike U.S. patent law, patents are granted to the first to file an application for a particular invention, rather than to the first to invent. Although Japan accepts filings in English (to be followed by a Japanese translation), companies should ensure that translations of their applications are perfect, as significant negative ramifications may result from translation errors. Prompt filing in Japan is crucial because printed publication of a description of the invention anywhere in the world, or knowledge or use of the invention in Japan, prior to the filing date of the Japanese application, would preclude the grant of a patent on the application. Also, unlike the United States, where examination of patent applications is automatic, an applicant must request examination of his patent application in Japan within three years of filing.

As is true in many countries, all patent applications are published 18 months after filing. If, during the examination, the Japanese Patent Office (JPO) finds no impediment to the grant of a patent for a particular invention, it publishes the patent application in the Patent Public Gazette a second time, including any changes that have been made during the examination. Under a recent amendment to the Patent Law, parties may contest the terms of a patent grant immediately after issuance by the Patent Office (for a period of up to six months), rather than prior to registration as had been the previous practice. The patent is granted and valid for 20 years from the date the application is filed.

It takes an average of 26 months, according to the latest JPO statistics in CY 2004, in Japan from the request for examination of application to First Action. An applicant can request accelerated examination, and efforts by the Patent Office to make the documentation necessary for the preliminary research required to request accelerated examination available electronically are expected to lower the cost of such requests to the applicant. During the examination period, limited effective legal protection exists.

Japan's Trademark Law protects trademarks and service marks. As is the case with patent applications, a resident agent (usually a lawyer or patent agent) must prosecute the trademark application. And as with the processing of patent applications, Japan's trademark registration process can be slow. Any company planning on doing business in Japan should file for trademark registration as early as practicable. Japan is subject to the Madrid Protocol (effective March 14, 2000) and trademarks registered at the WIPO Secretariat will be protected among member countries.

Japan's Utility Model Law also allows registration of utility models, a form of minor patent with a 6-year term of protection, retroactive from the date of application since January 1994. A separate design law allows protection of designs, with a 15-year term of protection from the date registration was made.

Unfair Competition and Trade Secrets

The only protection available for a trademark in Japan prior to registration is under the Japanese Unfair Competition Prevention Law. Under this law, the owner of the mark must demonstrate that the mark is well known in Japan and that consumers will be confused by the use of an identical or similar mark by the unauthorized user. In 1990, Japan enacted amendments to the law that provided some protection from theft of trade secrets, such as know-how, customer lists, sales manuals, and experimental data. The law, which was amended completely in 1993, also provides for injunctions against wrongful use, acquisition, or disclosure of a trade secret by any person who knew or should have known that the information in question was misappropriated. The judicial process, however, makes the enforcement of rights without loss of trade secrets difficult.

Transparency of the Regulatory System: Toward More Openness [Return to top](#)

Over-regulation in Japan continues to restrain economic growth, raise the cost of doing business, restricts competition, impedes market entry and exit, and impede investment. It also raises prices and increases the cost of living for Japanese consumers and for foreign businesses operating in Japan. Typical of highly regulated economies, the Japanese economy is still suffering from misallocation of resources, a lack of foreign investment and a lack of entrepreneurial innovation. In addition to slowing growth, government over-regulation lies at the heart of many market access and competitive problems faced by U.S. companies in Japan.

An essential prerequisite for a vibrant Japanese economy is a regulatory system that is transparent, fair, predictable and accountable. It is important that domestic and foreign firms alike have full access to information and opportunities to participate in the regulatory decision-making process. The Japanese Government made greater transparency a crosscutting theme of its Plan on the Promotion of Regulatory Reform (Cabinet Decision of March, 2004). The systemic measures set out in the Plan could contribute to needed improvements in the transparency and accountability of the Japanese regulatory system. They include the following: wide and effective use of the Public Comment Procedures for Formulating, Amending and Repealing Regulations; the strict enforcement and promotion of the use of the 1994 Administrative Procedure Law; increased transparency of administrative guidance; full and effective implementation of the Law Concerning the Disclosure of Information Retained by Administrative Agencies; expanded use of the "No Action Letter" system; comprehensive and objective evaluation of the regulatory process; and examination of the need, effects, and costs of new proposed and existing regulations.

Building on these measures, the United States in its Regulatory Reform Initiative submissions has recommended that the Japanese Government undertake additional improvements in its regulatory system to support Japan's reform efforts and to ensure universal access to government information and the policymaking process. Japan has taken welcome steps in recent years to improve its Public Comment Procedures (PCP),

but as the effectiveness of these revisions remains to be seen, the United States continues to urge the GOJ to take concrete steps to ensure the spirit of the revised PCP is adhered to, including compelling Ministries and Agencies to provide minimum 30-day public comment periods unless there is a genuinely urgent need to do otherwise; seriously consider public views submitted and incorporate them into final regulations where appropriate; publish draft regulations at the earliest possible time to allow interested parties sufficient time to analyze issues and prepare meaningful public comments; and provide sufficient time between the closing of a comment period and the finalizing of regulations so that comments can in fact be incorporated. In addition, given the often-significant role of advisory councils (*shingikai*) and other government-commissioned study groups in Japanese policy development, the United States also recommends measures to increase their transparency and provide greater opportunities for public input into deliberations of these groups. The United States further recommends that Japan take further steps to enhance the effectiveness and increase the usage of Japan's no-action letter system, which provides regulated firms with an opportunity to seek clarification of an administrative agency's interpretation of laws and regulations.

The United States continues to hold bilateral working-level discussions in an effort to encourage the Japanese to promote deregulation, competition policy, and administrative reform measures that could help revive the Japanese economy, increase imports and foreign direct investment into Japan. The reader should consult the National Trade Estimate Report on Foreign Trade Barriers, issued by the Office of the U.S. Trade Representative (USTR) on March 30, 2005, for a detailed description of Japan's regulatory regime as it affects foreign exporters and investors.

In an effort to increase the transparency of Japan's regulatory system to foreign investors, the Cabinet Office is coordinating a government-wide effort to produce consistent translations of selected Japanese laws and regulations into foreign languages, starting with English. The project encompasses the development of an English glossary of common Japanese legal terms, translations of an initial set of laws and regulations that affect foreign investors, and a single internet-based access point.

Efficient Capital Markets and Portfolio Investment: Some Restrictions

[Return to top](#)

Japan maintains no formal restrictions on inward portfolio investment, and in fact foreign capital occupies an increasingly important place in Japanese capital markets. Informal restrictions on management participation of foreign shareholders limit the attractiveness of Japan's equity market to foreign investors, although some firms have taken steps to facilitate exercise of shareholder rights by foreign investors, such as permitting electronic proxy voting.

Environment for Mergers and Acquisitions

Japan's aversion to M&A activity is fading, accelerated by the unwinding of extensive corporate cross-shareholding brought about by implementation of improved accounting standards and new government mandates that banks divest cross-held shares above a set level of holdings.

Friendly transfer of wholly-owned and majority-owned subsidiaries remains a more common form of M&A in Japan. Similarly, owner-operated unlisted firms — which traditionally would only sell out as a last resort before bankruptcy — are becoming more amenable to acquisition, including by foreigners. Particularly in the more modern, more service-oriented sectors of the economy, purchase by foreigners is less of a badge of shame than in years past.

Still, there remain a number of key factors limiting greater entry into the Japanese market through M&A with unlisted firms — including tax policy, weak accounting and disclosure practices, Japan's underdeveloped OTC stock market (which if more developed would reduce the risks involved in M&A), lack of readily available information on firms that might be acquired, and the relative shortage of M&A "infrastructure" in the form of specialists skilled in making matches and structuring M&A deals.

Two new exchanges geared towards encouraging start-ups and venture capital investments opened in Tokyo in 1999, but only one remains. The Tokyo Stock Exchange "Mothers" Exchange, with less-stringent listing criteria for emerging companies, has relatively few listed firms and suffers from lack of liquidity.

Commercial Law Revisions

A major revision of Japan's commercial laws is nearing completion. In January 2001, new laws designed to facilitate procedures for spin-offs to establish new firms and to transfer divisions from one company to another went into effect. Important legislation was passed in 2002 and 2005 that has significantly increased the flexibility of capital structure and improve corporate governance:

In 2000-2001, the Diet enacted a number of revisions to the Commercial Code to improve the methods through which companies may obtain financing and services and to provide incentives to managers and employees, including amendments:

1. Relaxing the restrictions on the size of units of stocks, including abolishing the ¥50,000 per share minimum issue price and restrictions on the minimum net assets per share at the time of stock splits;
2. Authorizing the issuance of tracking stock;
3. Eliminating the prohibition on the issuance of non-voting common stock, and increasing the limit on the total number of non-voting shares that may be issued from one-third of the total issued shares to one-half of total issued shares;
4. Substantially liberalizing restrictions on issuance of stock options, including abolishing restrictions on the recipients of stock options, maximum number of stock options that may be granted and the permissible exercise period;
5. Permitting classes of shareholders of closely held corporations that have issued more than one class of shares to elect a specified number or percentage of board members;
6. Eliminating the prohibition against transfers of new subscription rights; and

7. Eliminating the requirement for court-supervised inspection procedure for valuation of in-kind capital contributions, allowing as an alternative certifications by professionals such as lawyers, accountants or tax accountants.

In June 2005 the Diet passed a new Company Law that revises and combines Part II of the existing Commercial Code and laws governing limited liability companies (*yugen gaisha*) and audits under the Commercial Code. When the Company Law enters into force in May 2006, corporation start-up will be made easier and corporate structure more flexible, including through elimination of minimum capital requirements for joint-stock companies (*kabushiki kaisha*), the elimination of the *yugen gaisha* form and the creation of a new Limited Liability Company (LLC) form (*godo kaisha*).

Included in the new Company Law was a provision — Article 821 — which has created great uncertainty among foreign corporations that conduct their primary business through their company branches in Japan's market. As written, Article 821 appears to prohibit such branches of foreign corporations from engaging in transactions in Japan on a continuous basis. While supplementary steps were taken in Japan's Diet prior to passage of the new Company Law to assure companies that the Japanese government would not apply Article 821 to legitimate entities, legal uncertainty remains for these branches, particularly with respect to private litigation that could be brought against their directors and officers. In bilateral talks on investment and regulatory reform, the U.S. Government has urged that Japan make revisions to the Company Law, before it comes into effect in May 2006 to remove all legal liability that Article 821 has created for legitimate branches of foreign corporations in Japan.

Improvements in Corporate Governance:

In addition, the Diet has enacted a number of revisions to the Commercial Code and the Industrial Revitalization Law to ensure efficient corporate governance, including amendments:

- Providing publicly traded companies the option of adopting U.S.-style corporate governance system instead of complying with the statutory auditor (*kansayaku*) requirement. This option requires the appointment of executive officers and the establishment of a board committee system in which at least the audit, nomination and compensation committees would be composed of a majority of outside directors. Initially available only under the Industrial Revitalization Law, which requires companies to submit their company revitalization plans to METI Minister to obtain Minister's authorization, the new measure will be available for companies in general when the new Company Law enters into force in May 2006; and
- Permitting companies to use the Internet or other electronic means to provide notices of shareholders' meetings and other similar communications to shareholders upon individual consent, and permitting shareholders to exercise their voting rights through the use of electronic devices. In addition, companies are permitted to meet their mandatory disclosure requirements for balance sheets (and profit and loss statements) by making the full text available for 5 years in an electronic format.

Cross-shareholding and M&A

Potential foreign investors in Japan frequently point out that extensive cross-shareholding (*mochiai*) in Japan greatly complicates market-based merger and acquisition transactions and reduces the potential impact of shareholder-based corporate governance. Corporate governance practices which result in senior management emphasizing internal loyalties over shareholder return can also lead to premature rejection of M&A offers. At the same time, Japanese companies are unwinding cross-shareholdings, a process that has accelerated in recent years under the pressure of difficult corporate finances and stricter accounting requirements. Similarly, more corporations are hiring outside directors and placing greater emphasis on shareholder value in their management practices.

To assist corporations in reducing the unfunded liabilities of corporate pension funds and to accelerate the unwinding of cross-shareholdings, the Japanese government implemented legislation in 2000 that allows corporations to transfer shareholdings to their related corporate pension funds. If the shares are directly transferred, the pension fund is able to properly execute shareholder rights and sell the shares if it is deemed in the best interests of the pension-holders. However, many firms prefer the alternative of indirect transfer of shares through a trust whereby the sponsoring corporation retains voting rights and effectively influences when the shares can be sold. In 2001 the GOJ created the Banks' Shareholdings Purchase Corporation to facilitate sale of bank cross-held shares.

In another useful innovation, the Diet approved amendments to the Commercial Code permitting creation of a domestic stock swap system, through which one of the parties becomes a wholly-owned subsidiary company and the other a parent company, as well as a stock transfer system to establish a parent company. Special tax treatment has been implemented in conjunction with the creation of the stock exchange and the stock transfer system to allow deferment of taxes on capital gains on stocks at the time of exchange and transfer. To take advantage of these new rules, however, foreign investors must legally establish a Japanese subsidiary firm to act as the counterpart to the stock exchange/transfer.

Legislation to allow foreign firms — and Japanese firms operating internationally — to use similar transactions when conducting M&As based in other markets has been adopted as part of an amendment to the Industrial Revitalization Act. Unfortunately, deferred tax treatment was not part of the package. Japan's new Company Law, which passed the Diet in 2005, provides for increased flexibility in compensation for M&A transactions, including the use of cross-border stock swaps in triangular merger transactions involving Japanese public companies. These provisions will take effect in May 2007 and, if accompanied by appropriate tax measures, are expected to greatly increase the volume of international M&A transactions in Japan, provided that implementing regulations to be drafted in 2006 do not impose significant restrictions or new procedural hurdles.

Accounting and Disclosure

Accounting and disclosure standards are an extremely important element in assessing and improving any nation's environment for mergers and acquisitions. Before any

merger or acquisition can take place, it is critical that the merging or purchasing corporations have the best possible information on which to make business decisions. Implementation of "Big Bang" -associated reforms since 1998 has significantly improved Japan's accounting standards.

A shift to consolidated accounting was made mandatory in FY99 and "effective control standards and influence" standards were introduced in place of conventional holding standards, expanding the range of subsidiary and affiliated companies included for the settlement of account. Consolidated disclosure of contingent liabilities, such as guarantees, began in April 1998. Since FY01 all marketable financial assets held for trading purposes including cross-shareholdings and other long-term securities holdings are recorded at market value in Japan.

Also starting in FY00, companies were required to disclose unfunded pension liabilities by valuing pension assets and liabilities at fair value. Fixed asset impairment accounting is scheduled for FY05. This new rule would require firms to record losses if the recoverable value of property, plant or equipment is significantly less than book value.

The greater focus on consolidated results and mark-to-market accounting is already having an impact and is encouraging unwinding of cross-held shares. Corporate restructuring is accelerating, and companies are rushing to reduce pension underfunding. Banks have started disposing of low-yield assets. While the recent improvement in accounting standards and growth in M&A activity have been welcome, they have also exacerbated the shortage of accounting professionals.

Taxation and M&A

Preferential tax treatment of initial public offerings remains a problem. Under current regulations, if a company is sold in an M&A transaction before an IPO listing, a 10% capital gains tax rate applies for listed stocks. (Japan adopted a standard 20% capital gains tax rate applicable from January 1, 2004. However, the capital gains tax rate on sales of listed stocks remains 10% through the end of 2007). Under a series of special measures Japan has adopted to promote venture businesses, if the founding shareholder of a qualified company sells shares in the company:

- a 10% capital gains tax rate will apply if the sale is made prior to public listing in an M&A transaction;
- a 5% rate will apply if the shares are sold by the end of 2007 *and* within three years of listing;
- from 2008, a 10% rate will apply to shares sold by the founding shareholder within three years of listing.

Bankruptcy Laws

An insolvent company in Japan can face liquidation under the Bankruptcy Act or take one of four roads to reorganization: the Civil Rehabilitation Law (*Minji Saisei Ho*), the Corporate Reorganization Law (*Kaisha Kosei Ho*), corporate reorganization (*Kaisha Seiri*) under the Commercial Code or an out-of-court creditor agreement.

In April 2000, Japan overhauled its bankruptcy law governing small and medium size firm bankruptcies by enacting the Civil Rehabilitation Law, which focuses on corporate restructuring in contrast to liquidation. The new law provides improved protection of debtor assets prior to the start of restructuring procedures, eases requirements for beginning restructuring procedures, simplifies and rationalizes procedures for the examination and determination of liabilities and improves procedures for approval of rehabilitation plans. Japan's Corporate Reorganization Law, generally used by large companies, was similarly revised in April 2003. Amendments made corporate reorganization for large companies more cost-efficient, speedy, flexible and available at an earlier stage. By removing many institutional barriers to the restructuring process, the new bankruptcy regime has already accelerated the corporate restructuring process in Japan.

In the 1990s, most corporate bankruptcies in Japan were dealt with by out-of-court creditor agreements because court procedures were lengthy and costly. Also the fact that bankruptcy trustees had limited powers to oversee restructuring meant that most judicial bankruptcies ended in liquidation, often at distress prices. In 2001, a group of Japanese bankruptcy experts published a set of private rehabilitation guidelines, modeled after the UK-based INSOL guidelines, for out of court corporate rehabilitation in Japan. Out of court workouts in Japan tend to save time and expense, although they sometimes also lack transparency and fairness. In practice, because 100 percent creditor consensus is required for out-of-court workouts and the court can sanction a reorganization plan with only a majority of creditors' approval, the last stage of an out-of-court workout is often a request for a judicial seal of approval.

Credit Markets

Domestic and foreign investors have free access to a variety of credit instruments at market rates. In general, foreign companies in Japan have not experienced significant difficulties in obtaining funding. Most foreign firms obtain short-term credit by borrowing from Japanese commercial banks or one of the many (close to one hundred) foreign banks operating in Japan. Medium-term loans are available from commercial banks, as well as from trust banks and life insurance companies. Large foreign firms have tended to use foreign sources for long-term financial needs, although increasingly sophisticated derivatives products are becoming available to assist in hedging foreign investors' perceived risk.

Political Violence: Rare to Unknown

[Return to top](#)

In general, political violence is rare in Japan, and acts of political violence involving American business interests are virtually unknown.

Corruption: Evolution Towards Stricter Ethical Standards

[Return to top](#)

The penal code of Japan covers crimes of official corruption. An individual convicted under these statutes is subject, depending on the nature of the crime, to penal servitude ranging from one month to fifteen years, and possible fines up to three million yen or mandatory confiscation of the monetary equivalent of the bribe.

While corruption usually involves the exchange of moneys, the methods by which business is conducted in Japan can often lead to what some foreign Japan-watchers have described as “institutionalized corruption.” For example, the web of close relationships between Japanese companies, politicians, government organizations, and universities has been said to foster an inwardly cooperative business climate that is conducive to the awarding of contracts, positions, etc. within a tight circle of local players.

Bid-rigging activities continue. Bid rigging harms both the competitive process and Japanese taxpayers, and undermines respect for competition principles and for the Antimonopoly Act. Most damaging is government official support and assistance in bid-rigging conspiracies. The Bid-Rigging Prevention Act came into effect on January 6, 2003. That Act authorizes the Japan Fair Trade Commission (JFTC) to demand central and local government commissioning agencies to take corrective measures to prevent continued complicity of officials in bid-rigging activities, and to report such measures to the JFTC. The Act also contains provisions concerning disciplinary action against officials who have participated in bid rigging and compensation for overcharges when the officials caused damage to the government due to willful or grave negligence. However, enforcement has lagged, with only two JFTC investigations in the first two years since the Act entered into force. New ground was broken in 2005 when the JFTC invoked the Bid-rigging Prevention Act for the first time against a central government agency in the wake of a major bid-rigging scandal involving executives of the state-owned corporation in charge of highway construction and maintenance. Previous applications of the Act had been directed only at local authorities. Nevertheless, questions remain as to whether the Act's disciplinary provisions are strong enough to ensure that officials who facilitate illegal bid rigging will be held accountable.

Amakudari is the practice whereby senior government officials retire into top positions in Japanese companies, usually in industries that they once regulated. These officials then function as in-house consultants on regulatory matters and as lobbyists to their former ministries and agencies. *Amakudari* individuals are particularly common in the financial, construction, transportation, and pharmaceutical industries — which, not coincidentally, are traditionally heavily regulated industries. Foreign companies usually do not enjoy such pipelines into the bureaucracy, and thus are somewhat disadvantaged in their ability to understand and deal with laws, regulations, and informal ministry guidance. This disadvantage has been ameliorated somewhat in recent years by the introduction of more transparent administrative procedures. In addition, egregious examples of bid-rigging undertaken through *amakudari* connections have led to efforts toward reform. Notably, following the May 2005 revelation of a major bid-rigging conspiracy tied to government tenders for steel bridge construction, both the Ministry of Land, Infrastructure, and Transport (MLIT) and the Japan Highway Public Corporation issued new, stricter guidelines on post-retirement employment by officials and executives.

While there have been some high profile exposures of officials having either given or accepted bribes, the Japanese government has not had an aggressive record of criminal prosecution. Those prosecuted have generally received suspended sentences. In some cases, the government is in the dilemma of deciding how to handle past activities such as “wining and dining” which were commonplace at the time, but which are now more explicitly banned. The recent revelation of several corruption scandals may reflect an evolution towards stricter ethical standards.

Following reform in 1993, numerous shareholder civil suits have been filed. Japanese law also provides for company directors to be found personally liable for the amount of the bribe, and some judgments have been rendered against company directors. This change may significantly impact the payment of bribes, as individuals are held personally liable without the shield of the company to protect them, although there has been discussion within the ruling political party of possible new rules to make it more difficult to file shareholder derivative lawsuits.

Japan has also ratified the OECD Anti-Bribery Convention, which bans the bribing of government officials in countries outside Japan. The OECD has identified some deficiencies in Japan's implementing legislation, some of which the Government of Japan has taken steps to rectify. In May 2004, Japan further amended the Unfair Competition Prevention Law (UCPL) to extend national jurisdiction to cover the crime of bribery. This change may facilitate enforcement action, but as of January 2006 Japan had yet to file any foreign bribery cases. The GOJ also submitted an amendment to the Organized Crime Prevention Law to provide for confiscation of bribery proceeds for consideration by the 2004 regular Diet session, but this amendment was held over to the next diet session. As of January 2006, the proposed legislation remains "under discussion" in the Diet, with no indication as to the timing of eventual passage. The GOJ has also failed to act on other changes recommended by the OECD Bribery Working Group, such as increasing the level of penalties for bribery.

Bilateral Investment Agreements: Continuing Discussions under EPG

[Return to top](#)

The 1952 U.S.-Japan Treaty of Friendship, Commerce, and Navigation gives national treatment and most favored nation treatment to most U.S. investments in Japan.

U.S.-Japan Investment Initiative

U.S. Government concerns regarding barriers to foreign investment in Japan continue to be addressed through bilateral discussions under the U.S.-Japan Economic Partnership for Growth (EPG), established by President Bush and Prime Minister Koizumi in June 2001. The Investment Initiative Working Group has conducted four full years of meetings discussing policy measures to improve the investment atmosphere in Japan and has pursued a vigorous program of public outreach. In order to increase business awareness and receptiveness to FDI, investment promotion seminars were held in the Japanese cities of Kobe, Fukuoka, and Nagoya in March 2002; Osaka and Sapporo in April 2003; Kitakyushu and Kyoto in April 2004; and Nagoya and Chiba in May 2005. Similarly, investment symposia were held in New York and Chicago in July 2002; San Francisco and Chicago in June 2003; Atlanta and Los Angeles in October 2004; and New York and San Jose, California, in November 2005.

OPIC And Other Investment Insurance Programs: Not Available

[Return to top](#)

OPIC insurance and finance programs are not available in Japan. Japan has been a member of the Multilateral Investment Guarantee Agency (MIGA) since it was established in 1988. Japan's capital subscription to the organization is the second largest among member countries, after the United States.

The Japanese labor market today suffers from demographic, macro-economic, and structural pressures, which are beginning to change traditional Japanese employment practices. The regulatory philosophy that has formed Japan's post-war labor laws is also changing. Foreign investors seeking to hire highly qualified workers in Japan will welcome most of these changes.

Japanese employment practices have been said to rest on "three pillars:" lifetime employment, seniority-based wages, and enterprise unions. In fact, these three aspects of the Japanese labor market have always applied only to the larger firms, and today all three are undergoing transformation. Demographic pressures – fewer young workers and a rapidly aging labor force – as well as the need for structural changes in the Japanese economy are forcing most firms to abandon both lifetime employment guarantees and seniority-based wages in favor of merit-based pay scales and limited-term contracts. Also, although labor unions play a role in the annual determination of wage scales throughout the economy, only 19.2 % of Japanese workers were union members in 2004. In firms with less than 100 employees, only 1.2 % were unionized in 2004.

Investors should be aware of Japan's high wage structure. In 2004, workers earned an average of approximately 301,600 yen per month (0.16% decrease from the previous year) in base wages including benefits, with significant variations by education, age/seniority and position. Occupational wage differentials are much smaller than in most countries. However, according to the Ministry of Health, Labor and Welfare's statistics, base wages, including basic benefits, were only 75.4% of total wage costs in 2004. Annual summer and year-end bonuses added, on average, another 24.6%. Relatively high statutory welfare contributions are also required for basic government pensions, health and accident insurance, and unemployment insurance. Most companies also incur other employee welfare costs for family and/or transportation allowances, company-provided pension schemes, and such in-kind payments as housing for some employees. Offsetting these high wage costs, of course, is the fact that the Japanese work force is highly educated, disciplined, loyal to their employer, and motivated to assure the economic well-being of the company.

Japanese workers have traditionally been classified as being either "regular" or "other" employees and this system is, to a considerable degree, still in place today. Regular employees are usually recruited directly from schools or universities and given an employment contract with no fixed duration. Other employees are given fixed duration employment contracts, which generally cannot exceed one year but may be renewed several times over. Still other employees include part-timers, interns, and "dispatched workers," as workers from temporary work agencies are called in Japan. Until very recently, only a few occupations could be handled by dispatched worker agencies but this is one area where Japanese labor law has in fact been deregulated, thus the number and types of dispatched workers have increased geometrically over the past several years.

The regulation of private, fee-charging employment agencies — including executive search firms — has also recently been liberalized. Although a fairly time-consuming and bureaucratic licensing procedure is still required, private employment agencies can now serve virtually the entire range of occupations. On-line, Internet based, job seeking and

placement services are, however, still in their infancy in Japan — constrained at least partly by a Ministry of Labor requirement that every employment agency must personally interview each of its clients.

Defined contribution pensions, introduced in October 2001, helped promote labor mobility, as workers will be able to carry their pension funds to other jobs, but the ceiling on contributions needs to be raised to realize the full potential of the move.

Foreign-Trade Zones / Free Ports / Special Zones for Structural Reform

[Return to top](#)

Japan no longer has any free-trade zones or free ports. Customs authorities, however, do allow the bonding of some warehousing and processing facilities in certain areas adjacent to ports on a case-by-case basis. The GOJ established a law in 1992 entitled the "Law on Extraordinary Measures for the Facilitation of Imports and Foreign Direct Investment in Japan." Under the law, the GOJ helps increase access to the Japanese market for foreign goods and capital at government-designated "foreign access zones" near harbors and airports. This law will expire in May 2006, but the ruling LDP's draft Tax Revisions Omnibus Law for FY2006 may retain this "extraordinary measures" after the 1992 law's expiration. The LDP will submit the bill during the first Diet session of 2006.

In 2003 the government of Prime Minister Koizumi introduced the Special Zones for Structural Reform (SZSR) initiative with the goal of helping revitalize Japan's regional economies through locally led regulatory and structural reform. A small number of the Special Zones approved under the initiative have helped to remove regulatory barriers that limit U.S. business market entry and foreign investment into Japan; for example, Japan reduced customs overtime charges within its International Physical Distribution Zones by 50% in April, 2004. The majority of Special Zones, however, have not targeted significant market-opening opportunities for foreign investors. (For more details, see *also* the section on "Investment Incentives" under [Openness To Foreign Investment: Few Formal Restrictions](#), *supra*.)

Foreign Direct Investment Statistics: Steady Increase in Japan's FDI Stock in CY2004

[Return to top](#)

The following tables incorporate data for CY 2004 and JFY 2004 (April 2004 through March 2005) for both inward and outward foreign investment in Japan. The official statistics used until 2002 represent notification to the Ministry of Finance (MOF) of authorization by MOF of specific planned investment projects (as reported to MOF by companies), not necessarily actual flows of investment. In addition, the notification-based FDI statistics do not exclude investment that was withdrawn afterwards. Thus these figures generally exceed by a substantial amount actual investment flows as reported in Japan's balance of payments data. For those reasons, from the 2003 report we use balance-of-payments data as much as possible, particularly for the stocks of FDI. Balance of payments data, however, provide only overall FDI values by country, and do not cover industry-by-industry FDI and the number of cases of FDI. For those data, we still have to rely on MOF notification-based data. (At the same time, neither notification-based data nor balance of payments statistics capture re-investment of profits by foreign

firms operating in Japan, or Japanese firms operating overseas. Therefore, according to some academic researchers, both types of official data misstate actual foreign capital investment by a wide margin.)

FDI in Japan has soared since the mid 1990s. In fact, FDI stock in Japan has more than tripled (on a yen basis) in the period 1998-2004, from 3.0 trillion yen at the end of 1998 to 10.1 trillion yen at the end of 2004. Reforms in the financial, communications, and distribution sectors have encouraged foreign investment into these sectors. Improvements in corporate laws, bankruptcy laws, and accounting principles have also helped attract foreign capital to Japanese companies. In 2004, FDI toward Japan reached \$7.8 billion, up from \$6.3 billion in CY 2003, but not as strong as the \$9.2 billion inflow recorded in 2002.

In CY 2004, Japan's FDI overseas also increased to \$31.0 billion from the previous year's level of \$28.8 billion. Japan's FDI flows to Asia increased sharply to \$10.5 billion in 2004, from \$5.0 billion in 2003, led \$5.9 billion of FDI into China and \$1.9 billion into Thailand. China consolidated its position as the number two destination for new Japanese FDI in 2004, after the U.S. Japanese FDI flows to most other regions stayed flat or declined. While the U.S. remained the top destination for new Japanese FDI in 2004, the annual flow dropped to \$7.5 billion from \$10.7 billion the previous year.

All data in the tables below is from MOF and JETRO, current as of January 2005, and converted into dollars using each year's average exchange rate: CY00 data at 107.77 yen to the dollar, CY 01 data at 121.53 yen to the dollar, CY 02 data at 125.31 yen to the dollar, CY03 data at 115.93 yen to the dollar, JFY03 data at 113.03 yen to the dollar, CY03 data at 108.19 yen to the dollar, JFY04 data at 107.49 yen to the dollar and "Cumulative Total" data as of the end of CY 2004 at 103.84 yen to the dollar.

TABLE 1a		
Annual New FDI into Japan		
<i>(Billions of Dollars Notification Basis until JFY 1999 Balance-of-Payments Basis for CY 2000, 2001, 2002, and 2003)</i>		
JFY	1993	3.08
	1994	4.16
	1995	3.83
	1996	6.84
	1997	5.53
	1998	10.47
CY	1999	21.5
	2000	8.32
	2001	6.24
	2002	9.24
	2003	6.32
	2004	7.82

TABLE 1b		
Ratio of Japan's Inward to Outward FDI Flows		
<i>(Notification Basis until JFY 1999 Balance-of-Payments Basis for CY 2000, 2001, 2002, and 2003)</i>		
JFY	1993	1:11.7
	1994	1: 9.9
	1995	1:13.4
	1996	1: 7.0
	1997	1: 9.8
	1998	1: 3.9
CY	1999	1: 3.1
	2000	1: 3.8
	2001	1: 6.1
	2002	1: 3.5
	2003	1: 4.6
	2004	1: 4.0

TABLE 2				
Foreign Direct Investment in Japan, by Country				
<i>(Millions of dollars; annual flow; balance-of-payments basis)</i>				
	CY 2002	CY 2003	CY 2004	CY 2004-End (Cumulative Total)
North America	3,128	-555	2,252	45,919
U.S.	2,564	-582	1,371	40,872
Canada	565	28	883	5,049
Europe	6,316	5,119	5,687	41,779
Netherlands	1,710	3,206	3,664	14,210
United Kingdom	541	-437	-316	2,310
Germany	555	1,755	1,166	3,915
Switzerland	1,045	-287	104	3,172
France	2,305	653	1,071	13,693
Asia	12	379	996	5,889
Thailand	-134	29	-1	48
Singapore	124	333	391	1,380
Taiwan	-23	78	73	1,605
Hong Kong	-14	38	299	2,136
South Korea	63	95	250	537
China	--	2	-9	90
Latin America	-189	1,376	-1,131	3,004
Cayman Islands	-114	1,348	-771	2,666
Brazil	0	0	19	33
Mexico	--	2	0	5
Total	9,245	6,325	7,817	97,305
<i>Note: Negative figures indicate capital outflow on a net basis.</i>				

TABLE 3			
Foreign Direct Investment in Japan, by Industry			
<i>(Millions of dollars; annual flow; reporting basis)</i>			
	JFY 2002	JFY 2003	JFY 2004
Manufacturing	6,749	4,310	952
Machinery	2,220	2,489	402
Chemicals	3,417	970	199
Metals	136	26	7
Rubber/Leather	0	0	0
Petroleum	508	113	166
Textiles	34	10	83
Foods	67	449	32
Glass/Ceramics	3	7	0
Other	365	248	63
Non-Manufacturing	11,186	14,411	36,507
Finance/Insurance	5,306	9,006	27,693
Trade	2,118	3,266	999
Services	2,025	955	1,263
Real Estate	239	610	213
Telecom	1,414	534	4,338
Transport	22	15	1,947
Construction	19	10	31
Other	45	18	24
Total	17,935	18,722	36,507

TABLE 4						
U.S. Direct Investment in Japan, by Industry						
<i>(Annual flow; reporting basis)</i>						
	JFY 2002		JFY 2003		JFY 2004	
	\$ Million	# of Cases	\$ Million	# of Cases	\$ Million	# of Cases
Manufactured Goods	1,057	50	555	33	186	40
Machinery	637	29	531	16	77	21
Chemicals	322	10	9	8	26	8
Metals	46	4	--	--	--	--
Foods	0	1	12	6	--	--
Non-Manufactured Goods	4,322	396	3,338	351	24,184	484
Finance/Insurance	1,788	122	808	133	23,604	305
Commerce/Trade	715	80	1,349	44	152	46
Services	726	726	534	106	277	78
Real Estate	127	56	476	63	125	49
Telecom	966	8	170	4	15	3
Construction	1	2	1	1	--	--
Total	5,380	446	3,893	384	24,372	524

Note: Data is actually North America, not U.S.

TABLE 5				
Japanese Direct Investment Overseas, by Country				
<i>(Millions of dollars; annual flow; balance-of-payments basis)</i>				
	CY 2002	CY 2003	CY 2004	CY 2004-end (Cumulative Total)
North America	8,649	11,039	7,573	146,967
U.S.	7,592	10,733	7,530	142,302
Canada	1,057	306	43	4,665
Europe	9,764	7,969	7,081	101,886
United Kingdom	2,053	2,500	1,625	26,845
Netherlands	1,455	3,419	3,355	36,499
Germany	576	715	642	6,990
France	4,009	1,173	25	12,937
Spain	-87	145	182	1,150
Sweden	326	119	-72	1,560
Asia	8,177	4,965	10,548	76,416
Thailand	524	673	1,874	9,909
Indonesia	303	474	504	6,520
China	2,610	3,950	5,868	20,208
Singapore	1,880	454	136	11,175
Hong Kong	224	78	487	6,275
Malaysia	261	512	162	4,080
Philippines	1,094	110	6	3,296
South Korea	433	335	771	6,602
India	149	126	139	1,756
Taiwan	456	215	479	5,455
Latin America	4,072	3,208	3,133	26,588
Cayman Islands	3,457	1,659	2,746	15,008
Brazil	741	1,089	-66	4,560
Mexico	240	371	186	2,888
Oceania	1,424	1,120	1,861	15,091
Australia	1,142	946	1,654	12,844
Africa	227	436	382	1,628
South Africa	106	120	126	967
Middle East	89	38	-62	1,022
UAE	26	49	-20	39
Saudi Arabia	81	22	-38	859
Total	32,301	28,801	30,955	371,755
<i>Note: Negative figures indicate capital inflow on a net basis.</i>				

TABLE 6			
Japanese Direct Investment Overseas, by Industry			
<i>(Millions of dollars; annual flow; reporting basis)</i>			
	JFY 2002	JFY 2003	JFY 2004 (Cumulative Total)
Manufactured Goods	14,689	16,246	13,750
Electrical	3,920	5,005	2,039
Chemicals	1,916	4,749	3,530
Transport	4,916	3,013	3,601
Food	222	428	1,088
Metals	633	1,078	1,391
Machinery	1,288	956	1,108
Lumber/Pulp	240	28	119
Textiles	199	178	172
Other	1,354	810	702
Non-Manufactured Goods	21,860	19,599	21,010
Finance/Insurance	12,801	7,639	11,613
Commerce/Trade	3,694	4,315	1,884
Real Estate	1,449	1,494	370
Services	1,836	1,939	2,360
Transport	1,503	1,876	1,286
Mining	367	1,915	2,054
Construction	121	258	280
Agriculture/Forestry	7	157	38
Fisheries	56	4	24
Other	27	--	--
Total	49,257	31,487	34,548

TABLE 7							
Foreign Direct Investment in Japan relative to GDP							
<i>(FDI figures until JFY 1999 are on a notification basis, and on a balance-of-payments basis for CY 2000 through 2003)</i>							
<i>(trillion yen)</i>	JFY 1998	1999	CY 2000	2001	2002	2003	2004
(a) Nominal GDP	487.3	493.8	511.8	500.3	499.99	497.82	496.19
(b) FDI Inflow	1.34	2.4	0.90	0.76	1.16	0.73	0.85
b ÷ a (%)	0.27	0.49	0.18	0.16	0.23	0.15	0.17

Table 8	
Examples of Major Foreign Direct Investments by U.S. Companies and Other Foreign Nations' companies	
8a. Financial Services/Insurance	
Merrill Lynch	acquired Yamaichi securities
GE Capital	acquired Toho Insurance
Manulife (Canadian)	acquired Daihyaku Insurance
Ripplewood	acquired Long Term Credit Bank
AIG	acquired Chiyoda Life Insurance
Prudential	acquired Kyoei Life Insurance
City Financial, Japan	acquired assets of Marufuku (a consumer loan company)
Cerberus	acquired Aozora Bank
Goldman Sachs	capital participation in Mitsui Sumitomo Financial Group
8b. Information Technology/Telecommunications	
C and W (British/US interest)	acquired IDC
MCI World Com	greenfield investment
Level 3	greenfield investment
Time Warner/Media One	TITUS
Global One (Sprint JV with European firms)	greenfield investment
Cisco Systems	capital participation in Soft Bank
Microchip Technology	acquired assets of Fujitsu
Intel	capital participation in Nikon
Advanced Analogic Technology	established its Japanese subsidiary
RCS	established its branch office in Tokyo
Ripplewood Holdings	acquired Japan Telecom and subsequently sold to Softbank
Carlyle Group (with Kyocera and DDI)	acquired DDI Pocket
ESilicon	established its Japanese arm
Brion Technologies	established its Japanese subsidiary
iAnywhere Solutions	established its Japanese arm
Lehman Brothers	capital participation in MP Technologies
8c. Distribution/Retail/Hotel/Real Estate	
Toys-R-US	long-established player in this market, and still expanding
Costco	d ^o
Sports Authority	d ^o
GAP	d ^o
Disney stores	d ^o
Nike	d ^o
Amazon.com	d ^o
Starbucks	d ^o
Tully's	d ^o
Coach	d ^o
Chelsea Properties	joint venture to open five outlet malls
Pacifica Malls	d ^o
Cold Stone Creamery	d ^o

Payless Shoe Source	d°
Ripplewood	acquired Phoenix SEAGAIA Resort
Wal-Mart	business tie-up with Seiyu Supermarket
CB Richard Ellis	acquired equities of New City Corporation (a real estate company)
Colony Capital LLC	acquired from Daiei the Fukuoka Dome baseball stadium and neighboring Sea Hawk Hotel and Resort
Tetra Tech	established its Japanese arm
LoanStar	acquired Toei
LoneStar Japan Acq LLC	acquired Kokusai Motors' office building
Morgan Stanley Group and Starwood Capital Group	acquired Sapporo Hotel Enterprise
Goldman Sachs (with Dynacity)	acquired Kondo Sangyo Shinsetsu Gaisya
8d. Manufacturing	
Concord Camera	established its Japanese arm
DuPont	established a joint venture, DuPont Farm Solution, with Maruwa Bio Chemical
Steel Partners Japan Strategic Fund	capital participation in Kikkoman
Hewlett-Packard	established its Japanese subsidiary
(tie ups)	
Renault	Nissan
Ford	Mazda
GM	Suzuki
Daimler-Chrysler	Mitsubishi Motor
(acquisitions)	
GE	acquired Kawasaki LNP (Kawasaki Steel's chemical manufacturing subsidiary)
Dow Chemical	acquired Leich Hold (Dai Nippon Chemical's subsidiary)
IBM	acquired Display Technology (Toshiba's CD/LSD manufacturing subsidiary)
Soletron	acquired NEC's PC manufacturing business department)
Micron Technology	acquired KMT Semiconductor (Kobe Steel's semiconductor manufacturing subsidiary)
Micron Technology	acquired assets of Dominion Semiconductor (Toshiba's subsidiary)
Carlyle Japan Holdings Three	acquired Kito Corporation (a manufacturer of industrial machinery)
Kodak Japan Digital Product Development	acquired Chinon Industries (a manufacturer of digital cameras)
Merck & Co.	acquired Banyu Pharmaceutical Co.
Morgan Stanley Group	acquired Tsuzuki Boseki
Oaktree Capital Management	acquired FDK

Promotion of foreign direct investment (FDI) in Japan:

www.investment-japan.net/index.htm

Invest Japan Business Support Center
Japan External Trade Organization (JETRO)

www.ietro.go.jp/investjapan/

[Return to table of contents](#)

U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>.

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[Return to table of contents](#)



Doing Business in Japan: A Country Commercial Guide for U.S. Companies

Chapter 7: Trade and Project Financing

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- [How Do I Get Paid \(Methods of Payment\)](#)
- [How Does the Banking System Operate](#)
- [General Availability of Financing](#)
- [Types of Available Export Financing and Insurance](#)
- [Foreign-Exchange Controls](#)
- [U.S. Banks and Local Correspondent Banks](#)
- [Project Financing](#)
- [Web Resources](#)

How Do I Get Paid (Methods of Payment)

[Return to top](#)

There are a number of methods used to settle payment in Japan: cash in advance, letter of credit used in conjunction with a documentary draft (time or sight), promissory note, documentary collection or draft, open account and consignment sales. As with U.S. domestic transactions, a major factor in determining the method of payment is the degree of trust in the buyer's ability and willingness to pay.

Because of the protection it offers to the American exporter and the Japanese importer, an irrevocable letter of credit (L/C) payable at sight is commonly used for settlement of international transactions. As large Japanese general trading companies often serve as intermediaries to small and medium-sized companies, L/Cs are often issued in their name rather than in the name of the end user of the product. With the trading company taking on the risk of the transaction, the U.S. firm is protected from the possible bankruptcy of the smaller company.

Another payment option is the use of documentary collection or open account with international credit insurance that, unlike the letter of credit, allows the importer's line of credit to remain open. At the same time, this option protects the exporter if the buyer goes bankrupt or cannot pay. International credit insurance can be obtained from the Export-Import Bank of the United States or private insurers.

A payment method widely used in Japan but sometimes unfamiliar to U.S. companies is the promissory note (*yakusoku tegata*). Promissory notes are IOUs with a promise to

pay at a later date, typically 90 to 120 days. Banks will often provide short-term financing through discounting and rollover of notes. Factoring and other forms of receivables financing (whether with or without recourse) are not common in Japan, and more conservative businesspeople find such arrangements a violation of the "relationship" between buyer and seller. It should be noted that, domestically, it is not uncommon for the buyer to request, and be granted an extension of the term of the *tegata* if there are cash-flow problems.

How Does the Banking System Operate

[Return to top](#)

While financial system deregulation and international competitive pressure has drastically changed the face of Japanese banking (the consolidation of 19 major banks into 4 super banks), the connection between corporate finance and banking institutions and non-financial corporations remains much tighter in Japan than in the United States; and extends far beyond simple lender/borrower relationships. Much corporate banking business is rooted in either *keiretsu* or regional relationships, and Japanese banks are frequently shareholders in companies that conduct banking business with them, although there are signs of changes. Japanese companies are traditionally highly leveraged in comparison with their U.S. counterparts, as banks take an active role in maintaining the financial health of their clients.

This unique relationship between a company and its bank has been long-standing; until recently, a Japanese company rarely changed its primary lender, although it would occasionally "shop around" for better credit arrangements. Even when credit is loose, companies sometimes borrow in excess of their need in order to maintain good relations with their bank and to ensure that funds will be available in leaner years. Banks are often large shareholders in publicly traded corporations, have close relationships with both local governments and national regulatory agencies, and often play a coordinating role among their clients. The collapse of the asset price "bubble" and the consequent worsening of bank balance sheets since the early 1990s, as well as corporate borrowing outside of traditional channels, has increasingly caused borrowers to tap international capital markets, and placed traditional banking systems under considerable strain. However, it remains safe to say that the Japanese commercial bank system is much more relationship oriented than the transaction-based U.S. system.

While large corporations with suitable credit ratings (especially export-oriented firms) can rely on corporate bond issues rather than banks for financing, bank lending continues to be the primary financing method for small and medium sized companies. However, after the "bubble" economy of the late 1980s and early 1990s, Japanese banks have had a harder time maintaining strong capital positions, and consequently have become more restrictive, leading to a credit crunch. In November 1996, the Japanese government embarked on a "Big Bang" financial reform initiative and has taken a number of helpful measures since then. While the actual long-term market impact of this liberalization still remains to be seen, the psychological impact in raising awareness of the potential effects of deregulation is now apparent.

Japanese banks offer regular and time deposits and checking accounts for businesses. Checks are negotiable instruments that are in effect payable to the bearer (rather than to the order of the payee, as in the United States). This limits the usefulness of checks, and in fact, most payments are made by electronic bank transfer (which costs a few hundred yen on average), or by sending cash through the postal system. The banks

(and now investment/securities firms) continue to wage an uphill battle against the postal savings system for consumer deposits, a fight that has become more difficult recently due to the perceived superior safety of the postal deposit system. The postal system enjoys regulatory permission to pay higher rates than commercial banks (and is in turn an important source of working capital for the government).

Personal checking accounts are almost unknown in Japan. Most individuals use electronic bank transfers to settle accounts. Cash settlement is also very common and the Post Office has a mechanism for payment by "cash envelope" which is widely used in direct marketing and other applications. Many Japanese banks now operate 24-hour cash machines (as do some credit card companies). Bank and other credit cards are easy to obtain and are widely accepted. The credit card market reached about 30 trillion yen at the end of 2004. Some bank credit cards offer revolving credit, but in most cases balances are paid in full monthly via automatic debiting from bank accounts.

The relationship among trading company, end user and exporter is an important feature of the financing environment in Japan. The Japanese general trading company (*sogo shosha*) is an integrated, comprehensive organization that embraces a range of functions including marketing and distribution, financing and shipping and the gathering of commercial information. It performs functions that in the United States would be carried out by import/export companies, freight forwarders, banks, law firms, accounting firms and business consultants. Thus, U.S. firms dealing with trading companies should familiarize themselves with the financing capabilities of such firms.

General Availability of Financing

[Return to top](#)

While some large U.S. companies in Japan enjoy strong relationships with the larger Japanese "city banks," most medium and small-sized U.S. firms have stated that it is difficult to secure the specific type of trade financing services needed for importing and distribution. In Japan, credit evaluation is heavily asset-based, and real estate is still favored as collateral despite the collapse of "bubble" era valuations. Moreover, a firm's ability to borrow may also be based on its personal relationships and rapport with bank officials rather than on typical U.S. standards of credit-worthiness. Some smaller firms report that they have been forced to secure needed financing from offshore sources. For U.S. companies with operations in Japan, teaming up with Japanese partners in a joint venture has been effective as a way to receive better treatment from Japanese banks.

While most American banks operating in Japan do engage in lending to subsidiaries of U.S. companies (especially their home market clients), many of them focus on higher value-added lines of business than conventional credit products.

When a Japanese bank extends credit to a foreign-owned company in Japan, it generally evaluates the financial status of both the borrower and its parent company. Even in cases where the Japanese subsidiary is financially strong, the parent company is often requested to guarantee the obligation (although a "Letter of Awareness" may be accepted in lieu of a guarantee).

Types of Available Export Financing and Insurance

[Return to top](#)

The Government of Japan's programs to promote imports and foreign investment in Japan include tax incentives, loan guarantees, low-cost loans to Japanese and foreign investors for import infrastructure through the Development Bank of Japan and other loan programs. Underscoring the Government's emphasis on import promotion, both the Ministry of Economy, Trade and Industry (METI) and the Japan External Trade Organization (JETRO) have established import divisions. In addition, Japan has a program to develop 22 Foreign Access Zones to offer enhanced import infrastructure facilities and eligibility for preferential tax treatment and low-cost loans.

Four major public financing corporations, the Japan Bank for International Cooperation, the Development Bank of Japan, the Japan Finance Corporation for Small Business and the National Life Finance Corporation, now make low-interest loans to encourage imports to and investment in Japan. In addition, the services of the Japan Regional Development Corporation, a government-affiliated institution that develops business parks and provides long-term loans at low interest rates, are available to foreign companies.

The Japan Bank for International Cooperation's import credit program for manufactured goods aims to provide support for the import of manufactured goods from developed countries to Japan. Five-year secured or guaranteed loans up to 70 percent loan-to-value and credit lines at preferential interest rates are available to importers, distributors and retailers incorporated in Japan who plan to increase their imports of manufactured goods excluding food products 10 percent or more over the previous year. Direct 70 percent loan-to-value long-term loans are also available to foreign exporters for the purchase of manufactured goods which will be exported to Japan under deferred-payment terms, as well as to foreign manufacturers and intermediary financial institutions for investment in production facilities and equipment to be used to produce goods for the Japanese market.

The Development Bank of Japan (DBJ) offers loans designed to increase imports into Japan. These loans are available to Japanese companies with at least 33 percent foreign capital or registered branches in Japan of non-Japanese companies for 40 to 50 percent of project costs for the expansion of business operations in Japan.

The Japan Finance Corporation for Small Business and National Life Finance Corporation has expanded their program to facilitate import sales. The program aims to provide support to small-scale retailers, wholesalers and importers in Japan for investments to increase imports to Japan.

A program between U.S. Eximbank and the Export-Import Insurance Division of METI (EID/METI) provides for co-financing insurance for U.S. exports to developing countries. EID/METI will also be providing advance payment insurance for U.S. exports to Japan. For additional details on these and other cooperative financing programs, U.S. companies should contact U.S. Eximbank.

No insurance for U.S. exporters is available from the Japanese Government.

Foreign-Exchange Controls

[Return to top](#)

Foreign exchange regulations have almost no impact on normal business transactions. One deregulatory action likely to lower foreign exchange transaction costs is the revision

of Japan's Foreign Exchange Law, which went into force in April 1998, and enabled a broad variety of institutions to conduct foreign exchange transactions. Prior to that action, only "authorized foreign exchange banks" could undertake such transactions, a system that dated back to Japan's opening to the West in the late 19th century.

U.S. Banks and Local Correspondent Banks

[Return to top](#)

Besides the more than 20 U.S. banks with branches in Japan, many U.S. banks have correspondent relationships with Japanese banks, which themselves have many branches and subsidiaries in the United States.

Commercial Banks in Japan

Resona Bank

2-1 Bingomachi 2-chome, Chuo-ku

Osaka 540-8610

Japan

Phone: +81/6/6271-1221

Fax: +81/6/6268-1337

www.resona-hd.co.jp/index-e.htm

Bank of Tokyo-Mitsubishi UFJ

2-7-1 Marunouchi, Chiyoda-ku,

Tokyo 100-8388

Japan

Phone: +81/3/3240-1111

Fax: +81/3/3240-4764

www.bk.mufg.jp/english/

Development Bank of Japan

1-9-1 Ohtemachi, Chiyoda-ku

Tokyo 100-0004

Japan

Phone: +81/3/3244-1770

Fax: +81/3/3245-1938

www.dbj.go.jp/english/

Japan Bank for International Cooperation

1-4-1 Ohtemachi, Chiyoda-ku

Tokyo 100-8144

Japan

Phone: +81/3/5218-3579

Fax: +81/3/5218-3968

www.jbic.go.jp/english/index.php

Mizuho Corporate Bank

1-3-3 Marunouchi, Chiyoda-ku

Tokyo 100-8210

Japan

Phone: +81/3/3214-1111

www.mizuhocbk.co.jp/english/

Sumitomo Mitsui Banking Corporation
1-1-2 Yurakucho, Chiyoda-ku
Tokyo 100-0006
Japan
Phone: +81/3/5512-3411
Fax: +81/3/5512-4429
www.smbc.co.jp/global/index.html

On January 1, 2006, the former United Financial Bank of Japan (UFJ) was merged with The Bank of Tokyo-Mitsubishi into a new entity known as The Bank of Tokyo-Mitsubishi UFJ (see above).

Multilateral Development Bank Offices in Country

Asian Development Bank
Second floor, Yamoto Seimei Building
1-1-7 Uchisaiwai-cho, Chiyoda-ku
Tokyo 100-0011
Japan
Phone: +81/3/-3504-3160
Fax: +81/3/3504-3165
E-mail: adbjro@adb.org
www.adb.org/

Project Financing

[Return to top](#)

Availability (OPIC, Eximbank, and Multinational Institutions)

As mentioned above under [General Availability of Financing](#), OPIC insurance and finance programs are not available in Japan. Japan has been a member of the Multilateral Investment Guarantee Agency (MIGA) since it was established in 1988.

In addition to the investment loan programs from Japanese Government-affiliated lenders described above, prefectures and municipalities offer various incentives, including construction, land acquisition and labor hiring subsidies, special depreciation of business assets, tax deferments for replacement of specific assets, exemption from special land-owning taxes assessed by municipalities and prefectural and municipal real estate acquisition, enterprise and municipal property tax reductions. In addition, most prefectures offer loan programs to encourage companies to establish local operations.

Japan's venture capital specialist funds are only half the size of those in the United States. Traditionally the top Japanese venture capital companies have acted more like quasi-banks than venture capital firms. Also, Financial Services Agency guidance to brokers to set tough standards for companies seeking to go public results in even the best companies taking up to a decade to get a listing on the over-the-counter stock market — less than 1000 over-the-counter stocks are listed on the nine-year-old JASDAQ, Japan's electronic OTC market.

Types of Projects Receiving Financing Support

In line with the Cabinet Decision in March 1995, the Export-Import Bank of Japan (JEXIM) and the Overseas Economic Cooperation Fund (OECF) merged on October 1, 1999, creating a new institution, the Japan Bank for International Cooperation (JBIC).

JBIC is a governmental institution that deals with external economic policy issues such as encouraging exports, securing access to energy resources, promoting direct overseas investments and improving Japan's external imbalances through financial assistance to the trade and investment activities of Japanese companies.

The financial facilities offered by JBIC include export loans, import loans, overseas investment loans and untied loans. JBIC also provides loan guarantees to private financial institutions, short-term loans designed to finance the external transactions of the governments of developing nations (bridge loans), and equity participation in the overseas projects of Japanese companies.

JBIC's international financial operations focus on projects in developing countries where local financial institutions cannot provide financing on their own. As JBIC's mandate is the support of internationalization for Japanese companies, its loans can be distinguished from Overseas Economic Cooperation operations, which targets the economic development of developing countries.

Overseas Investment Loans and Overseas Project Loans

These loans are typically granted via JBIC and extended to Japanese corporations for overseas investment activities and overseas projects. Overseas investment loans can also be made to overseas joint ventures involving Japanese capital and to foreign governments for capital investments or loans to joint ventures involving Japanese capital.

Un-Tied Loans

Extended to foreign governments, foreign governmental institutions, foreign financial institutions (including multilateral development banks), foreign corporations, and so forth for high-priority projects and economic restructuring programs in developing countries. These loans are not tied to the procurement of goods and services from Japan but are restricted to the specific purposes designated for each loan. These loans are managed by JBIC.

Web Resources

[Return to top](#)

Export-Import Bank of the United States:

www.exim.gov/

Country Limitation Schedule:

www.exim.gov/tools/country/country_limits.html

OPIC:

www.opic.gov/

Trade and Development Agency:

www.tda.gov/

SBA Office of International Trade:
(Small Business Administration)

www.sba.gov/oit/

USDA Commodity Credit Corporation: www.fsa.usda.gov/ccc/default.htm

U.S. Agency for International Development: www.usaid.gov/

Asian Development Bank (ADB): www.adb.org/

ADB Japan Representative Office: www.adb.org/JRO/default.asp

Japan Ministry of Economy, Trade and Industry (METI) www.meti.go.jp/english/

Japan External Trade Organization (JETRO): www.jetro.go.jp/

[Return to table of contents](#)

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[Return to table of contents](#)



Doing Business in Japan: A Country Commercial Guide for U.S. Companies

Chapter 8: Business Travel

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- [Business Customs](#)
- [Travel Advisory](#)
- [Visa Requirements](#)
- [Telecommunications](#)
- [Transportation](#)
- [Japanese Customs, Etiquette, and Culture](#)
- [Language](#)
- [Health](#)
- [Local Time, Business Hours, and Holidays](#)
- [Business Infrastructure](#)
- [Temporary Entry of Materials and Personal Belongings](#)
- [Web Resources](#)

Business Customs

[Return to top](#)

An understanding of Japanese business and social practices is useful in establishing and maintaining successful business relationships in Japan. Indifference to local business practices may indicate a lack of commitment on the part of the exporter, and may lead to misunderstandings and bad feelings, which could result in the loss of business opportunities. One should not assume that because meetings and correspondence are carried out in English that Western social and business norms apply.

Japanese society is complex, structured, hierarchical and group-oriented with strong emphasis on maintaining harmony and avoiding direct confrontation. Japanese religious practice tends to be socially oriented and selective rather than a matter of deep personal commitment; ethics tend to be situational. In building relationships (which often precede a first-time sale or an agreement) one should emphasize trust, confidence, loyalty and commitment for the long term.

Group decision-making is important in Japan and has been generally described as a bottom up exercise rather than top down. Family businesses founded since WWII and smaller second-tier firms are exceptions to this rule. However, even in the large family

firms, where decisions are made at the top, the process is usually managed so that company members have a sense of participation. This type of group decision-making tends to be slower. Recognizing that it takes a longer time to cultivate business relationships in Japan than in the United States, American business executives should not expect to make a deal in just a few days. Consistent follow-up is vital. Likewise, American business people should recognize the importance of working with the staff level of their Japanese counterparts and not exclusively with the executive level.

Gift giving is expected on many business occasions in Japan. Regional U.S. gifts or company-logo gifts are appropriate. Quality is important, but the gift does not have to be expensive. The packaging of the gift is as important as the gift itself and should be done professionally. In Japan, sets of four are considered unlucky (the number four is pronounced the same as the word for death). Gifts that can be shared among a group are appropriate.

Business travelers to Japan should make sure to bring a large supply of business cards (with their title) when they come to Japan; printing bilingual cards is a nice touch. Business cards are exchanged to formalize the introduction process and establish the status of the parties relative to each other. Japanese bow when greeting each other but will expect to shake hands with foreign executives. A slight bow in acknowledgment of a Japanese bow is appreciated. Japanese executives deal on a last name basis in business relationships, and initial business and social contacts are characterized by politeness and formality.

Business travelers visiting a Japanese firm for the first time should be accompanied by an interpreter. Many Japanese executives and decision-makers do not speak English, although many of them can greet visitors in English and read English product literature relevant to their business or industry expertise. Generally speaking, Japanese are weaker at hearing and speaking English, and more adept at reading and writing. Thus the Japanese side in a business meeting generally expects a visitor to bring an interpreter if they are serious about doing business. Although the cost for hiring an interpreter is high (\$400 to \$900 per day depending on class), bringing along an interpreter shows that a visiting firm is serious about seeking to market their products/services in Japan.

The first visit to a Japanese firm generally serves as a courtesy call to introduce American executives and their company, and also allows the U.S. side to begin to evaluate a target company and its executives as potential business partners. A request to meet only with English speaking staff can mean missing the opportunity to become acquainted with higher-ranking executives.

A written contract, even if less detailed than a contract between two U.S. companies, is essential to meet legal, tax, customs and accounting requirements. Contractual commitments are perceived as representing long-term relationships so the terms and conditions, for example whether to grant exclusive rights, should be considered carefully.

U.S. business travelers to Japan seeking appointments with U.S. Embassy Tokyo officials should contact the Commercial Section in advance. The Commercial Section can be reached by fax at 81/3/3589-4235 or by e-mail tokyo.office.box@mail.doc.gov.

There are no State Department travel advisories for Japan. Japan is noted for its low crime and safe streets.

Crimes against U.S. citizens in Japan are rare and usually only involve personal disputes, theft or vandalism. Crime is at levels well below the U.S. national average. Violent crime is rare, but does exist. Incidents of pick-pocketing of foreigners in crowded shopping areas, on trains and at airports have been a sporadic concern. Some Americans believe that Japanese police procedures appear to be less sensitive and responsive to a victim's concerns than would be the case in the United States, particularly in cases involving domestic violence and sexual assault. Few victim's assistance resources or battered women's shelters exist in major urban areas, and are generally unavailable in rural areas. Investigations of sexual assault crimes are often conducted without women police officers present and typically involve inquiries into the victim's sexual history and previous relationships. Quality of translations can vary significantly, and has proven unsettling to some American victims.

For additional information, please refer to the State Department's "Consular Information Sheet" for Japan at travel.state.gov/travel/cis_pa_tw/cis/cis_1148.html.

Visa Requirements

[Return to top](#)

A valid U.S. passport is necessary to enter and travel in Japan, and by Japanese law, non-residents are required to carry their passports at all times. A visa is not required for short-term business visits (up to 90 days). It is not required to have a round-trip ticket, although it is recommended. A work or investor visa may take up to two months to obtain. Immunization and health certificates are not required. Foreigners remaining in Japan longer than 90 days must obtain an Alien Registration Card, available free of charge from the municipal office of the city or ward of residence in Japan.

Upon arrival, going through both immigration and customs checks are essentially a formality for U.S. business travelers as long as passport and air ticket are in order. Passengers should exchange some U.S. dollars for yen before leaving the airport.

U.S. Companies that require travel of foreign businesspersons to the United States should allow sufficient time for visa issuance if required. Visa applicants should go to the following links:

State Department Visa Website: travel.state.gov/visa/index.html

United States Visas.gov: www.unitedstatesvisas.gov/

The web address for the Consular Section of the U.S. Embassy in Tokyo is:

tokyo.usembassy.gov/e/tvisa-main.html

Telecommunications

[Return to top](#)

Japan boasts one of the world's most advanced, state-of-the-art telecommunications systems. Almost all Japanese own a cell phone and use them constantly for text messaging, e-mail, and downloading information from the Internet in addition to making phone calls. Cable Internet services and dedicated Internet T-1 lines are not quite as

common as they are in the United States, however. Public phones, most often card-operated, are available everywhere. To call the United States and Canada from Japan, dial 0101 before the ten-digit U.S. telephone number.

Transportation

[Return to top](#)

Japan has excellent, modern highways and roads linking all parts of country. Traffic conditions are often very congested, however. Most major intercity highways operate on a toll basis, and tolls are very expensive, making passenger railroad service very competitive, especially for the foreign visitor. Japan boasts the world's densest and most modern passenger railroad system, with fast, frequent services to all parts of the country. Japan's famous *shinkansen* high-speed rails lines link Tokyo with Japan's major business centers at speeds of up to 185 mph. All of Japan's large cities have highly developed subway and commuter train service. Taxi service is available everywhere.

Foreign visitors should not entertain the notion of renting a car in Japan unless they have excellent Japanese-language skills, as streets typically have no name and many road signs are written in Japanese only. Combined with very high car rental fees and highway tolls, these conditions make it far cheaper and more convenient for the majority of visitors from overseas to use taxis and trains.

Japanese Customs, Etiquette, and Culture

[Return to top](#)

The web sites listed below are recommended reading for business visitors to Japan, especially first-time business visitors. They present an overview of Japanese culture, customs, and etiquette. Japanese culture is very different from the American. All aspects of Japanese life, especially business relations, are governed by strict rules of etiquette. A foreign business person who is either ignorant of, or insensitive to, Japanese customs and etiquette needlessly jeopardizes his company's prospects in this country. An elementary knowledge of the language is also useful, although not required. We hope that CS clients will find the contents of these web sites useful as they prepare for a business trip to Japan or get ready to deal with visiting Japanese business people in the United States.

japan-guide.com a very good basic guide to Japanese culture

Japanese culture	www.japan-guide.com/
Japanese etiquette	www.japan-guide.com/e/e622.html
Japanese customs	www.japan-guide.com/e/e638.html

Japan Web Guide FAQ

"Japanese Culture: A Primer for Newcomers"
www.thejapanfaq.com/FAQ-Primer.html

"Japanese Manners & Etiquette"
www.thejapanfaq.com/FAQ-Manners.html

Planet Tokyo www.planettokyo.com/

Excellent general-purpose web site especially helpful for first-time travelers to Japan, with features on "Arriving" (planes, trains, buses, and taxis), "Culture Notes," "Travel Basics," "Language & Culture," "Getting Around," and "Travel Planning Links."

Language

[Return to top](#)

The national language of Japan is Japanese (*nihongo*) and is spoken and understood all over the country. English is a required subject in Japanese high schools, and it is by far the most widely known foreign language in Japan. International business correspondence and negotiations in Japan are almost always conducted in English. This being said, however, most Japanese, including business executives, have only a very imperfect understanding and command of English, although there are of course exceptions. Japanese business executives often read English much better than they can speak it or understand it when spoken. It is advisable, therefore, to be accompanied by a competent professional interpreter to all business meetings, especially an initial contact where you might be unsure of your counterparts' mastery of English.

Overseas visitors interested in the Japanese language can visit the following web sites:

"Some Notes on Japanese Grammar" www.csse.monash.edu.au/~jwb/jgrammar.html

"Japanese for the Western Brain" kimallen.sheepdogdesign.net/Japanese/index.html

Jim Breen's Japanese Page

www.csse.monash.edu.au/~jwb/japanese.html

Health

[Return to top](#)

While medical care in Japan is good, English-speaking physicians and medical facilities that cater to Americans' expectations are expensive and not very widespread. Japan has a national health insurance system, which is only available to foreigners with long-term visas for Japan. National health insurance does not pay for medical evacuation or medical care outside of Japan. Medical caregivers in Japan require payment in full at the time of treatment or concrete proof of ability to pay before treating a foreigner who is not a member of the national health insurance plan.

For additional information, please refer to the State Department's "Consular Information Sheet" for Japan at travel.state.gov/travel/cis_pa_tw/cis/cis_1148.html.

Local Time, Business Hours, and Holidays

[Return to top](#)

Local Time

Japan is 14 hours ahead of U.S. Eastern Standard Time (EST) and 13 hours ahead of Eastern Daylight Time (EDT) from April to October. Consequently, 8:00 a.m. EST in New York City corresponds to 10:00 p.m. the same day in Tokyo. 8:00 p.m. EST in New York City corresponds to 10:00 a.m. *the next day* in Tokyo.

Business Hours

The typical Japanese workweek is Monday through Friday, 9:00 a.m. to 5:00 p.m., although many Japanese office workers put in long hours of overtime. Flex work hours have become popular at large companies.

Holidays

When a national holiday falls on a Sunday, the following Monday is a compensatory day. In addition, many Japanese companies and government offices traditionally close during the New Year's holiday season (December 28-January 3), "Golden Week" (April 29-May 5) and the traditional "O-Bon" Festival (usually August 12-15).

National Holidays in 2006

In 2006, Japan will observe the following official holidays:

New Year's Day	January 1 (Sunday, to be observed on Monday, January 2)
Adult's Day	January 9 (Monday)
National Foundation Day	February 11 (Saturday)
Vernal Equinox Day	March 21 (Tuesday)
Greenery Day	April 29 (Saturday)
Constitution Day	May 3 (Wednesday)
Legal Rest Day	May 4 (Thursday)
Children's Day	May 5 (Friday)
Marine Day	July 17 (Monday)
Respect for the Aged Day	September 18 (Monday)
Autumnal Equinox Day	September 23 (Saturday)
Health & Sports Day	October 9 (Monday)
Culture Day	November 3 (Friday)
Labor Thanksgiving Day	November 23 (Thursday)
Emperor's Birthday	December 23 (Saturday)

Business Infrastructure

[Return to top](#)

Japan's business infrastructure is on a par with that of the United States. All business traveler services are available. For additional information on traveling to Japan, contact the Japan National Tourist Organization (JNTO) in New York at: phone 212-757-5640, fax 212-307-6754, or visit JNTO's website at www.jnto.go.jp/.

Temporary Entry of Materials and Personal Belongings

[Return to top](#)

There is no restriction for temporary entry of laptop computers and software for personal use. Regarding materials for exhibits, Japan is a member of the International Convention to Facilitate the Importation of Commercial Samples and Advertising Materials under the ATA *carnet* System (www.atacarnet.com/). Use of a *carnet* allows goods such as commercial and exhibition samples, professional equipment, musical instruments and television cameras to be carried or sent temporarily into a foreign country without paying duties or posting bonds. These goods cannot be sold. A *carnet*

should be arranged for in advance by contacting a local office of the United States Council for International Business or its helpline at 800-ATA-2900.

Web Resources

[Return to top](#)

Doing business in Japan:

U.S. Commercial Service Japan
www.buyusa.gov/japan/en/doing.html

Consular information & official travel advisories for Japan:

U.S. Department of State
travel.state.gov/travel/cis_pa_tw/cis/cis_1148.html

U.S. visas:

U.S. Department of State
travel.state.gov/visa/index.html
www.unitedstatesvisas.gov/

U.S. Embassy in Tokyo Consular Section
tokyo.usembassy.gov/e/tvisa-main.html

Japanese customs, etiquette, and culture:

www.japan-guide.com/
www.thejapanfaq.com/
www.planettokyo.com/

Japanese language:

"Some Notes on Japanese Grammar"
www.csse.monash.edu.au/~jwb/jgrammar.html

"Japanese for the Western Brain"
kimallen.sheepdogdesign.net/Japanese/index.html

Jim Breen's Japanese Page
www.csse.monash.edu.au/~jwb/japanese.html

Business infrastructure:

Japan National Tourist Organization (JNTO)
www.jnto.go.jp/

Health:

U.S. Department of State
Consular Information Sheet for Japan
travel.state.gov/travel/cis_pa_tw/cis/cis_1148.html

Temporary entry of materials under the *carnet* system:

www.atacarnet.com/

[Return to table of contents](#)

U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>.

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.

[Return to table of contents](#)



Doing Business in Japan: A Country Commercial Guide for U.S. Companies

Chapter 9: Contacts, Market Research, and Trade Events

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- [Contacts](#)
- [Market Research](#)
- [Trade Events](#)

Contacts

[Return to top](#)

U.S. EMBASSY TRADE PERSONNEL

Commercial Service Tokyo

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Jason Hancock, Attaché (Major Projects, Environment & Transportation Unit)

Stephen Jacques, Attaché (Major Projects, Environment & Transportation Unit)

Alain Letort, Attaché (Outreach, Publications, Administration & Support Services Unit)

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Stephen Anderson, Principal Commercial Consul

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Nagoya International Center Building, 6F

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Nagoya 450-0001

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Fax: +81/52/581-3190

E-mail: nagoya.office.box@mail.doc.gov

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Marrie Schaefer, Consul General

Misa Shimizu, Commercial Specialist

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Fax: +81/11/643-1283

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James Crow, Economic/Commercial Officer (beginning July 2006)

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Phone: +81/92/751-9331

Fax: +81/92/725-3772

E-mail: blair.labarge@mail.doc.gov (until July 2006)

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Thomas Reich, Consul General

Akinori Hayashi, Commercial Specialist

American Consulate General

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Phone: +81/98/876-4211
Fax: +81/98/876-4243
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Foreign Agricultural Service

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Clay Hamilton, Senior Agricultural Attaché
Deanna Ayala, Agricultural Attaché
Rachael Nelson, Agricultural Attaché
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Fax: +81/3/3589-0793
E-mail: agtokyo@usda.gov

Agricultural Trade Office (Tokyo)

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Kevin Sage-El, Deputy Director
Toshin Tameike Bldg., 8F
1-1-14, Akasaka, Minato-ku
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Phone: +81/3/3505-6050
Fax: +81/3/3582-6429
Web: www.atojapan.org/
E-mail: atotokyo@usda.gov

Agricultural Trade Office (Osaka)

Emiko Purdy, Director
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2-11-5 Nishitenma, Kita-ku
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E-mail: atoosaka@usda.gov

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Nicole Nelson-Jean, Energy Attaché
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CHAMBERS OF COMMERCE/TRADE ASSOCIATIONS

American Chamber of Commerce in Japan (ACCJ)

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2-4-5 Azabudai, Minato-ku
Tokyo 106-0041
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Phone: +81/3/3433-5381
Fax: +81/3/3433-8454
www.accj.or.jp/

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2-8 Honmachibashi, Chuo-ku
Osaka 540-0029
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Phone: +81/6/6944-5991
Fax: +81/6/6944-5992
Web: www.accj.or.jp/

American Chamber of Commerce in Japan (ACCJ) Chubu Chapter

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2-11-24, Marunouchi, Naka-ku
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Web: www.keidanren.or.jp/

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Nihon Kogyo Club Bldg. Annex 5F
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Fax: +81/3/3212-3774
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Fax: +81/3/3435-5979
Web: www.jftc.or.jp/english/home_e.htm

Japan-U.S. Business Council

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Fax: +81/92/735-4205
Web: www.fukuoka-fta.or.jp/

AGRICULTURAL TRADE ASSOCIATIONS**Japan Chain Stores Association**

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Fax: +81/3/5251-4601
Web: www.jcsa.gr.jp/

Japan Confectionery Association

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Fax: +81/3/3261-9175
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Japan Dehydrated Vegetable Association

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Fax: +81/3/3552-2820

Japan Food Service Association

1-29-6, Hamamatsucho, Minato-ku
Tokyo 105-0013
Japan
Phone: +81/3/5403-1060
Fax: +81/3/5403-1070
E-mail: info-jf@jfnet.or.jp
Web: www.jfnet.or.jp/

Japan Frozen Food Association

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Fax: +81/3/3669-2117
E-mail: info@reishokukyo.or.jp
Web: www.reishokukyo.or.jp/

Japan Fruit Juice Association

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Fax: +81/3/3435-0737
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Fax: +81/3/3268-3136

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Web: www.jhnfa.org/

Japan Nut Association

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Tokyo 103-002

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Phone: +81/3/5649-8572

Fax: +81/3/5649-8573

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Web: www.jna-nut.com/index.htm

Japan Self-Service Association, Inc.

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Japan Restaurant Association

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Tokyo 103-0026

Japan

Phone: +81/3/5651-5601

Fax: +81/3/5651-5602

E-mail: jp.res.@jpnrestaurant.org

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Japan Wine And Spirits Importers Association

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1-13-5 Toranomom, Minato-ku

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For further contact information of Japanese government agencies and quasi-governmental organizations, please contact Commercial Service Japan offices.

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Nikkei Research Inc.

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U.S. Commerce Dept. Trade Information Center, Washington DC

Phone: 1-800-USA-TRADE
Fax: 202-482-4473
Email: tic@ita.doc.gov
Web: www.trade.gov/td/tic/

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Director General of the U.S. Commercial Service
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U.S. Commerce Dept. Market Access and Compliance Country Desk

Office of Japan
International Trade Administration
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Washington, DC 20230
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U.S. Department of Agriculture

Foreign Agricultural Service
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Web: www.fas.usda.gov/

U.S. Department of State

Commercial and Business Affairs Office
2201 C Street, N.W., Room 2318
Washington, DC 20520
Phone: 202-647-1625
Fax: 202-647-3953

E-mail: cbaweb@state.gov
Web: www.state.gov/business

Export-Import Bank of the United States (Ex-Im Bank)

811 Vermont Avenue, N.W.
Washington, DC 20571
Phone: (202) 565-3946 (EXIM)
(800) 565-3946 (EXIM)
E-mail: info@exim.gov
Web: www.exim.gov/

Overseas Private Investment Corporation (OPIC)

1100 New York Avenue, N.W.
Washington, D.C. 20527
Phone: 202-336-8400
Fax: 202-408-9859
E-mail: info@opic.gov
Web: www.opic.gov/

Market Research

[Return to top](#)

Foreign Commercial Service, U.S. Dept. of Commerce

To view market research reports produced by the U.S. Commercial Service, please visit www.export.gov/marketresearch.html and click on Country and Industry Market Reports.

Foreign Agricultural Service, U.S. Dept. of Agriculture

Each year, the Foreign Agricultural Service offices in Tokyo and Osaka prepare more than 100 reports on food market developments in Japan. These include sector studies, product-specific market briefs and reports on market-opening and other trade policy developments. All reports are available on-line by accessing the Foreign Agricultural Service web site at www.fas.usda.gov/scripts/attacherep/default.asp.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to these sites is required, but free of charge.

Trade Events

[Return to top](#)

Please click on the links below for more information regarding upcoming trade events.

www.export.gov/tradeevents.html

www.buyusa.gov/japan/en/event.html

* * * * *

[Return to table of contents](#)

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To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.

[Return to table of contents](#)



Doing Business in Japan: A Country Commercial Guide for U.S. Companies

Chapter 10: Guide to Our Services

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The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

For more information on the services that the U.S. Commercial Service in Japan offers U.S. businesses, please click on www.buyusa.gov/japan/en/partner.html.

[Return to table of contents](#)

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